CENTRAL BANK OF NIGERIA

BANKING SUPERVISION ANNUAL REPORT

2016

The Banking Supervision Annual Report is a publication of the Central Bank of Nigeria. The publication reviews policy and operational issues in the financial sector and provides insight into the supervisory and regulatory activities of the Central Bank of Nigeria for the reporting year.

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FOREWORD

The Nigeria economy witnessed a number of challenges in 2016. These necessitated the enhanced implementation of extant regulations and supervisory regime as well as the introduction of new regulations to sustain the soundness and stability of the banking system.

The development of an Early Warning System, aimed at proactively managing emerging risks at the individual bank and macroeconomic levels was one of the key supervisory initiatives in 2016. Also, as part of efforts to stabilize the foreign exchange market, the CBN introduced a Flexible Exchange Rate Regime. This boosted activities in the market with additional trade opportunities created for banks to engage in derivative transactions.

To standardise the submissions by domestic systemically important banks, the regulation on the minimum contents for Recovery Plans and Requirements for Resolution planning was also issued. Furthermore, the guidance notes to banks and discount houses on the Implementation of International Financial Reporting Standards (IFRS) 9; the operational guidelines for blacklisting errant staff of financial institutions; and the consumer protection framework are among the new regulations highlighted in the edition.

The supervision of financial institutions under the Bank's purview was enhanced through more frequent and intrusive off-site surveillance and on-site examinations. Monitoring and enforcement of regulatory decisions was also strengthened and consumer protection activities aimed at building customers' confidence elevated.

The CBN continued to build the capacity of members of staff in the supervisory departments through various training programmes. The departments also held retreats to engage and develop strategies on effective regulatory and supervisory processes.

It is our expectation that the information in this edition of the Banking Supervision Annual Report will be of immense benefit to readers, researchers and other stakeholders. We reiterate our commitment to ensuring that the financial system remains safe, stable and sound.

OKWU J. NNANNA (PhD)
Deputy Governor, Financial System Stability

PREFACE

This edition of the Banking Supervision Annual Report provides information on the developments in the regulatory and supervisory space that affected the banking system in 2016.

The Report is divided into five chapters with the first chapter discussing developments in the banking industry including enhancements to the supervisory process. Specifically, the chapter covers developments in cross-border supervision, other financial institutions, the foreign exchange market and the derivatives market. Also, developments in the sphere of anti-money laundering/combating the financing of terrorism and cyber security are discussed.

The Framework for Supervision, which is the focus of chapter two includes discussions on the guidelines on the minimum contents for recovery plans and requirements for resolution planning; blacklisting of errant staff of financial institutions; implementation of the IFRS 9; and the redesigned Credit Risk Management System. Furthermore, the chapter highlights the corporate governance scorecard and the implementation of the framework for financial stability.

Chapter three discusses the off-site and on-site supervisory activities of the CBN with respect to the banks and other financial institutions. The chapter also discusses the activities of the Bankers' Committee as well as the protection of consumers of financial services.

The performance trend of banks and other financial institutions during the period, with emphasis on their financial position, profitability and efficiency of operations, is covered in chapter four.

The last chapter discusses the capacity building activities in the supervisory departments, providing details of the training programmes and retreats attended by supervisors in the Financial System Stability directorate.

Once again, the Departmental Directors in the Financial System Stability Directorate wish to express their gratitude to the contributors to this edition of the annual report and the members of the Banking Supervision Annual Report Committee for their dedication.

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CHAPTER 1

DEVELOPMENTS IN THE BANKING INDUSTRY

1.01 ENHANCEMENT OF SUPERVISORY PROCESSES-EARLY WARNING SYSTEM

The impact of macroeconomic developments in amplifying bank-specific risks underscore the need for a robust off-site Early Warning System (EWS) to enhance the capacity of supervisors to manage key risks in individual banks and the macroeconomic environment. Consequently, the Central Bank of Nigeria (CBN), with Technical Assistance from the International Monetary Fund (IMF), developed an EWS for banking supervision.

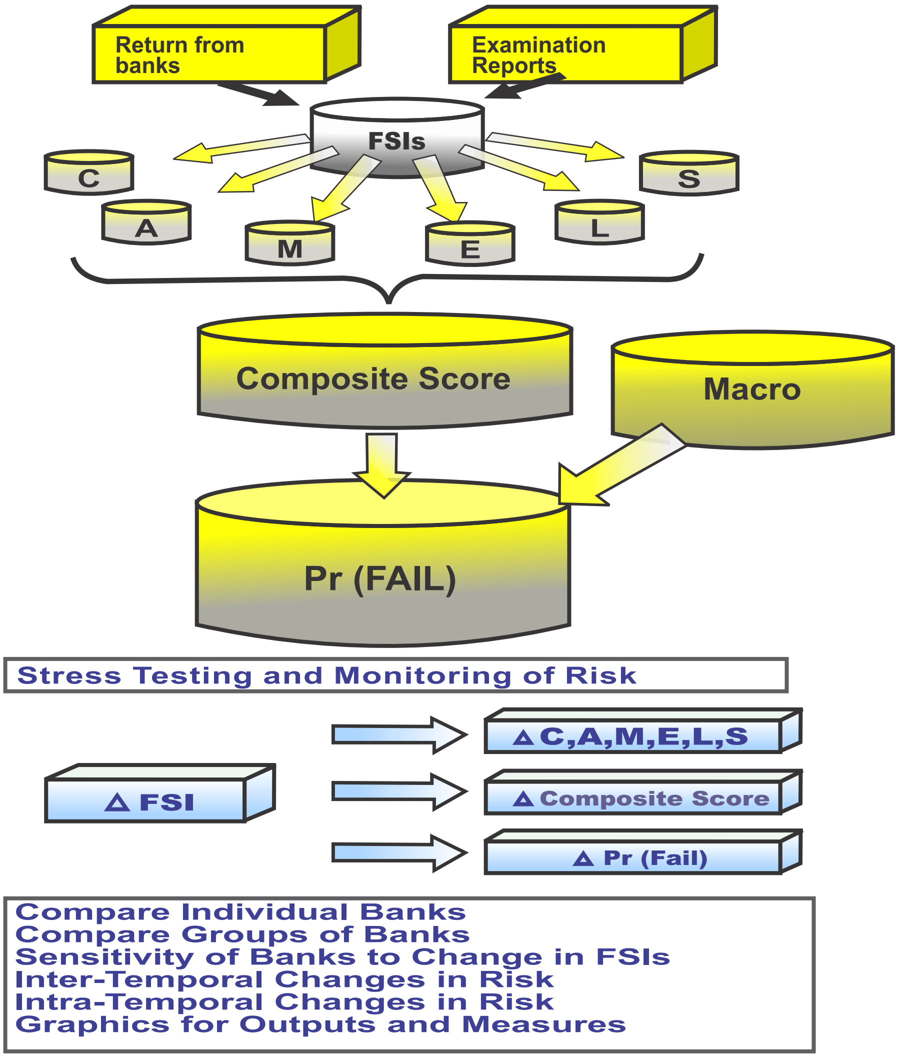
The EWS is an off-site surveillance tool that uses Financial Soundness Indicators (FSIs) and macroeconomic variables to estimate the probability of bank failure over a 12-month horizon. The EWS maps time series micro and macro data for the prediction of bank failure. The system applies a micro-supervisory perspective to measure individual bank's vulnerability, taking into account the macroeconomic conditions. Each bank is assigned a composite score based on an evaluation of FSIs derived from bank-specific statutory returns and on-site examination reports. The system combines the composite score [derived from Capital, Asset, Management, Earnings, Liquidity and Sensitivity to market risk (CAMELS) analysis] and macroeconomic variables to estimate the probability of failure of a bank under normal and stressful conditions.

Specifically, the EWS comprises two models. The first model, the Composite Score Model, converts financial data obtained from examination reports and statutory returns into a set of FSIs and eventually to a Composite Index based on the CAMELS parameters. The composite index ranges from 0 to 100, with '100' indicating the best financial condition and '0' the worst.

The Composite Index provides the basis for ordinal ranking of banks based on their risk profiles but does not predict the likelihood of bank failure. To remedy this limitation, a second model, the 'Logit' Model incorporates the Composite Score and macroeconomic conditions to estimate the likelihood that a bank will fail under normal and stressful conditions. Bank failure, in this scenario, is evidenced by a deterioration of capital to a negative level.

Based on the conceptual framework of the EWS, an important factor in determining the probability of failure of a bank is the correct estimation of the weights assigned to the CAMELS parameters based on supervisory judgment. One of the factor analysis, the Principal Component Analysis is used to validate the weight assigned by supervisors. The process design of the EWS is as presented below:

Figure 1: EWS Process Design



The EWS enables supervisors to simulate extreme but plausible scenarios to assess their impact on the probability of failure of a given bank. It also allows the supervisor to simulate changes in any of the FSIs or a combination thereof as well as changes in the macroeconomic variables.

The EWS will deepen Risk Based Supervision as it will assist supervisors to identify where risks reside in banks in order to intervene in a timely manner. It will also assist in the estimation of the probability of bank failure, link banking sector performance to macroeconomic developments and allocate supervisory resources efficiently.

1.02 DEVELOPMENTS IN THE FOREIGN EXCHANGE MARKET

Nigeria's foreign exchange earnings and reserves during the review period were affected by uncertainties in international oil prices and domestic production output. These impacted on the availability of foreign exchange for trade; thus compelling the CBN to adopt a number of measures to manage the widening gap between the inter-bank and bureaux de change rates. Some of the measures included:

i. The revision of the operational guidelines for BDCs to enhance their operational efficiency. The guidelines which became effective January 1, 2016 superseded the earlier one of May 2002.

ii. Relaxation of the regulation prohibiting banks from accepting foreign currency cash deposits into customers' domiciliary accounts. Consequently, effective January 11, 2016, customers were allowed to deposit foreign currency into their domiciliary accounts.

iii. Introduction of the Non-oil Export Stimulation Facility to enhance the diversification of the economy, reduce reliance on oil and speed up the growth of the non-oil export sector.

iv. Issuance of the Revised Guidelines for the Operation of the Nigerian Inter-bank Foreign Exchange Market in June 2016 to enhance efficiency and transparency in the market. Key aspects of the new FX regime were:

   a. Operation of a single market structure, the inter-bank/autonomous Foreign Exchange Market, with the CBN participating in the market through interventions directly or through dynamic Secondary Market Intervention Mechanisms.

   b. A purely market-driven exchange rate using the Thomson-Reuters Order Matching System and the Conversational Dealing Book.

   c. Introduction of additional trade and/or investment backed risk management products such as FX options, forwards (outright and non-deliverable), FX swaps, cross-currency interest rate swaps and Naira-settled, non-deliverable, over-the-counter (OTC) FX futures.

   d. Determination of the maximum spread between the bid and offer rates in the inter-bank market by Financial Market Dealers Quotation OTC Plc (FMDQ) Securities Exchange.

e. Purchase of the proceeds of foreign investment inflows and international money transfers by Authorized Dealers at the inter-bank rate.

f. Naira-settled non-deliverable OTC FX Futures, with fixed tenors and bespoke maturity dates to be offered on non-standardized basis by Authorized Dealers.

g. Provision of the appropriate benchmarks for the valuation and settlement of the OTC FX Futures and other FX derivatives by FMDQ.

h. Review of Authorised Dealers' Foreign Currency Trading Position Limits to +0.5 per cent/-10 per cent of their shareholders' funds unimpaired by losses.

i. Unfettered access to FX proceeds granted to non-oil exporters.

Inter-bank trading under the new guidelines commenced on June 20, 2016, while the tenors and rates for the OTC Naira-settled FX Futures were announced on June 27, 2016. In line with the desire to promote a transparent, liquid and efficient market, engender market confidence and credible price formation, the first intervention in the new market, through a special Secondary Market Intervention Sales (SMIS) totalling $4.0 billion (spot and forward), cleared the backlog of FX demand.

v. To facilitate the operational efficiency of the emerging OTC FX futures market, the following additional measures were introduced:

a. Foreign Portfolio Investors were allowed to repatriate the settlement amount in OTC futures transactions subject to the provision of requisite Certificate of Capital Importation and OTC FX future Settlement advice issued by FMDQ.

b. DMBs were directed to sell foreign exchange accruing from inward money transfer to BDCs, with the BDCs required to retail to end users.

c. Changes to the initial directive regarding the amount that could be sold per week, selling rate, and eligible transactions.

d. Authorised Dealers were also directed to dedicate at least 60 per cent of their total FX purchases from all sources for the purposes of importation of raw material, plant and machinery, in order to correct the observed imbalance in the disbursement of foreign exchange.

e. The regulation on foreign portfolio investment was amended to allow resident nationals and/or companies who import foreign currency, through authorised dealers, to invest such funds in money market instruments, bonds and equities.

vi. The allocation of FX was prioritised in terms of the criticality of needs. Consequently, preference was given to:

a. Matured letters of credit;
b. Importation of raw materials, plant and equipment;
c. Importation of petroleum products; and
d. Payments for school fees, BTA, PTA and related expenses

vii. Increased surveillance of the foreign exchange transactions of authorised dealers through spot checks to ensure that foreign exchange was utilised for eligible transactions.

Following the introduction of the flexible exchange rate regime, the exchange rate at the autonomous/interbank market depreciated by about 53 per cent from the rate of ₦199.1/$, pre-implementation to ₦305.2/$ at end-December 2016. Also, the high premium between the interbank and the BDC rates, which ranged from ₦100 to ₦185, owing to the mismatch between the demand and supply of foreign exchange to the market persisted.

The foreign exchange market witnessed the review of many extant regulations in an attempt to achieve a more flexible exchange rate and minimise CBN intervention with a maximum premium of not more than 5 per cent between the interbank and BDC rates.

1.03 DERIVATIVES MARKET

Prior to the issuance of the revised Guidelines for the Operation of the Nigerian Inter-bank Foreign Exchange Market in 2016, banks engaged in derivative transactions among themselves and with other non-bank counterparties. The transactions, which were bilateral in nature, typically had currency as the underlying asset. The volume of transactions was understandably low given the complexity of derivative transactions and stage of development of the banking industry.

The revised Guidelines introduced additional trade and/or investment backed risk management products such as FX options, forwards (outright and non-deliverable), FX swaps, cross-currency interest rate swaps and Naira-settled, non-deliverable, OTC FX futures.

The aggregate notional value of derivative transactions of banks in 2016 was ₦10.2 trillion, with FX Swaps constituting 60.4 per cent, followed by FX Futures 24.1 per cent, and FX Forwards 15.0 per cent. In terms of counterparties, transactions with clients accounted for 66.0 per cent; the CBN 27.3 per cent and inter-bank transactions, 6.7 per cent.

Table 1: Derivative Transactions of Banks

S/N	**Products**	**Bank to Bank**	**Bank to CBN**	**Bank to Client**	**Total**	
		₦'Billions				**Per cent**
1	FX Swaps	573.9	1,110.9	4,499.8	6,184.6	60.4
2	FX Futures	0.8	1,624.3	844.7	2,469.8	24.1
3	Forwards	93.9	64.5	1378.4	1536.8	15.0
4	FX Options	0.0	0.0	31.8	31.8	0.3
5	CCIRS	18.4	0.0	0.0	18.4	0.2
6	**Total**	**687.0**	**2,799.7**	**6,754.7**	**10,241.4**	100.0
	Per cent	**6.7**	**27.3**	**66.0**		

The average monthly derivative transaction for 2016 was ₦853.5 billion with values ranging from ₦354.7 billion in January to ₦1,636.0 billion in September 2016. Further analysis revealed that the monthly average for the first six months of 2016, which approximated to the period prior to the introduction of the flexible exchange rate regime, was ₦468.0 billion. This figure increased sharply to ₦1,239.0 billion in the last six months of 2016. Thus, it is evident that the introduction of the flexible exchange rate regime was a catalyst to the growth of the derivative market. The monthly transaction trend is presented in Table 2:

Table 2: Monthly Transaction Trend

Month	CCIR	FX Forwards	FX Futures	FX Options	FX Swaps	Total
	₦'Billions					
January	0.0	7.8	0.0	0.0	346.8	**354.7**
February	0.0	1.2	0.0	0.0	491.0	**492.1**
March	0.0	2.4	0.0	0.0	447.9	**450.3**
April	0.0	33.3	0.0	15.9	577.2	**626.3**
May	0.0	16.6	0.0	15.9	379.3	**411.8**
June	0.0	168.0	0.0	0.0	306.7	**474.6**
July	0.7	428.6	674.9	0.0	444.0	**1,548.1**
August	0.0	160.6	666.8	0.0	475.0	**1,302.3**
September	15.4	291.0	472.5	0.0	857.1	**1,636.0**
October	0.0	94.3	114.3	0.0	409.9	**618.6**
November	0.0	108.1	291.4	0.0	498.3	**897.9**
December	2.4	225.1	250.0	0.0	951.3	**1,428.7**

The derivatives market has no doubt, witnessed a significant growth during the year following the reform in the foreign exchange market. It is expected that the market will deepen over time with increased participation by counterparties.

1.04 DEVELOPMENTS IN CROSS-BORDER SUPERVISION

To minimise the pass-through of risk from other jurisdictions to the domestic banking system, the CBN executes mutually beneficial Memoranda of Understanding (MoUs) with offshore regulators, conducts on-site examination of offshore subsidiaries of Nigerian banks, and participates in supervisory colleges and regional co-operation arrangements.

Activities in this area during the period included:

i. Memoranda of Undersstanding with Foreign Bank Supervisory Authorities

The CBN executed MoUs with the Central Bank of Central African States and Reserve Bank of India, bringing the total number of MoUs on supervisory co-operation and information sharing to 20.

ii. Cross-border Expansion and Divestments

The total number of cross-border institutions of Nigerian banks reduced to 68 at end-December 2016 from 71 at end-December 2015. These comprise 59 subsidiaries, one affiliate, one branch and seven representative offices, located in 28 countries. The closure of two representative offices and one subsidiary accounted for the reduction in their number.

iii. On-site Examination of Offshore Subsidiaries of Nigerian Banks

The CBN participated in the on-site examination of nine offshore subsidiaries of five Nigerian banks. Two of the examinations were conducted solo while seven were jointly performed in the West African Monetary Zone. The CBN also participated in the joint examination of Ecobank Transnational Incorporated (ETI) Lomé, Togo and two joint AML/CFT examinations in The Gambia and Tanzania.

iv. Supervisory Colleges

a. College of Supervisors of the West African Monetary Zone

The College of Supervisors of the West African Monetary Zone (CSWAMZ) provided a platform for partnership and collaboration in cross-border banking supervision; development of a crisis management framework; strengthening measures for anti-money laundering and combating financing of terrorism and building capacity of bank examiners, among others. During the year, the College held its 20th, 21st, 22nd and 23rd meetings. The 22nd meeting was held in Guinea, while the others took place in Ghana.

b. College of Supervisors of Ecobank Transnational Incorporated

The second meeting of the College of Supervisors for ETI was held in Abidjan from October 26-27, 2016. The meeting deliberated on the risk profiles of ETI subsidiaries, highlighting the high operational risk in a number of them and ETI's efforts at mitigation. To enhance cooperation among the supervisors of the college, a formal declaration of confidentiality was made and discussions were held on the signing of the Statement of Mutual Cooperation.

c. College of Supervisors of United Bank for Africa Group

The 3rd meeting of the College of Supervisors of the United Bank for Africa (UBA) Group took place in Abuja in July 2016 with eleven supervisors in attendance. The College enjoined UBA Group to adequately monitor concentration risk within the group and strengthen governance structures in its subsidiaries.

The meeting also highlighted the need for close collaboration and information sharing among the regulators of UBA Group. The multilateral MoU for members of the college was reviewed and comments incorporated for execution at the fourth meeting of the College.

d. College of Supervisors of Standard Bank of South Africa

The meeting of the college, which was held in June 2016 in South Africa, provided supervisors with a better understanding of the risk profile and vulnerabilities of the Standard Bank Group. It also discussed improving and strengthening information sharing and cooperation among the regulators.

v. Regional Cooperation Arrangements

a. Community of African Bank Supervisors Working Group on Crisis Management and Banking Resolution

Nigeria was chosen to lead the Working Group (WG) on Crisis Management and Banking Resolution by the Community of African Bank Supervisors (CABS), the supervisory arm of the Association of African Central Banks (AACB). During the period under review, Kenya (East Africa), South Africa (Southern Africa) and BCEAO (French-speaking West Africa) nominated their representatives on the WG while nominations were being awaited from members from Central and Northern African countries.

b. Financial Stability Board Regional Consultative Group for Sub-Saharan Africa

The 9th meeting of the Financial Stability Board Regional Consultative Group for Sub-Saharan Africa was hosted by the CBN in Abuja on May 5, 2016. The Group serves as a platform for countries in Sub-Saharan Africa to exchange views and share experiences as well as present a common voice, by articulating and channelling the position of members through South Africa (the only member of Financial Stability Board from Africa), for consideration in the Board's policies and standards.

c. Financial Stability Board Regional Consultative Group for Sub-Saharan Africa Working Group on Home-Host Cooperation and Information Sharing

The CBN is a member of the Financial Stability Board Regional Consultative Group for Sub-Saharan Africa Working Group on home-host cooperation and information sharing among supervisors in the Sub-Saharan Africa region. The WG has the mandate for identifying the current status of, and challenges associated with, home-host cooperation and information sharing in the region.

In its interim report, the WG made recommendations in the areas of risk assessment, information sharing arrangements, capacity building and adequacy of resources to strengthen the framework for home-host cooperation and information sharing among members of the Group.

The CBN will continue to collaborate with other host regulators to ensure that cross-border banking activities do not pose a threat to the safety and soundness of the banking system in the regions.

1.05 DEVELOPMENTS IN OTHER FINANCIAL INSTITUTIONS

Developments in the Other Financial Institutions (OFIs) sub-sector during the review period included the following:

Microfinance Banks

At end-December 2016, there were 978 licensed MFBs, an increase of 31 over the 947 at end-December 2015.

In compliance with the provisions of Section 4.2 of the Revised Regulatory and Supervisory Guidelines for Microfinance Banks in Nigeria, which requires all top management staff of microfinance banks to possess requisite certification in microfinance management from the Chartered Institute of Bankers of Nigeria (CIBN), 689 operators passed the final level of the examination in the year. This brings to 3,899 the number of operators that have been certified by the CIBN since inception in 2009.

The CBN, in collaboration with the Rural Finance Institution Building Programme (RUFIN), organized a five-day train-the-trainers programme for Microfinance Training Service Providers (MTSPs) and other stakeholders in Lagos, Owerri and Kaduna. The aim was to enhance the capacity of the MTSPs in the areas of rural business plan and develop other relevant topics to be included in the curriculum of the Microfinance Certification Programme.

The second RUFIN/CBN sponsored Peer Review Forum for Microfinance Banks was held during the year to assess the progress made since the first session in 2015; develop a network of operators that would share experiences with peers and avail participants the opportunity to learn from one another.

The meeting of the Committee of Microfinance Banks in Nigeria was held in Abuja, Lagos and Calabar during the review period. Deliberations focused on a uniform banking application platform; bank verification number; Microfinance Certification Programme; returns rendition; deposit insurance; credit bureaux; Anti-Money Laundering and Combating Financing of Terrorism; and other matters of common interest.

Primary Mortgage Banks

There were 34 licensed Primary Mortgage Banks (PMBs) in Nigeria, comprising 10 National and 24 State PMBs, at end-December 2016. This represented a reduction of one (1) from the 35 in existence at end-December 2015, following the conversion of United Mortgage Bank Limited to a regional commercial bank. The PMBs focus on the origination of mortgages.

The two secondary mortgage banks in existence at end-December 2016, the Nigeria Mortgage Refinance Company and the Federal Mortgage Bank of Nigeria, were responsible for the provision of liquidity for existing mortgages.

The 14th and 15th meetings of the Mortgage Bankers' Committee were held in Abuja and Lagos during the year. The meetings focused on how to increase the contribution of the sub-sector to the Gross Domestic Product, adoption of uniform underwriting standards, challenges of the sub-sector and the draft Code of Conduct for members.

The National Housing Finance Programme achieved new milestones during the year as stated below:

a. The Nigeria Mortgage Refinance Company hosted the African Union Conference for Housing in Abuja. The conference created awareness of the opportunities in housing finance and proffered solutions to the challenges in this area.

b. Two firms were selected to work with eight MFBs that had been prequalified for the pilot Housing Microfinance Scheme targeted at low income earners.

c. The Technical Assistance Committee visited seven states identified as capable of providing the enabling environment for affordable housing. The visits provided the states with the opportunity to explore strategies that could ease land acquisition.

Development Finance Institutions

The number of DFIs remained six at end-December 2016, as it was at end-December 2015, with the National Economic Reconstruction Fund (NERFUND) in liquidation.

The bi-annual forum for Stakeholders of DFIs was held in February and December, 2016, with deliberations focused on the challenges facing the sub-sector and strategies for addressing them. The Guidelines for Development Finance Institutions in Nigeria was launched in February 2016.

The Development Bank of Nigeria was at the stage of obtaining its final licence to operate as a wholesale development finance institution. The bank is expected to provide finance for infrastructure, micro small and medium enterprises, and agriculture, through retail DFIs and other participating financial institutions.

Finance Companies

At end-December 2016, there were 70 licensed Finance Companies (FCs), an increase of 4 over the 66 at end-December 2015. Five delisted FCs were in the process of liquidation.

The CBN continued to sanitize the FCs sub-sector through the strict enforcement of regulation and supervision. It also enhanced its efforts to rid the sub-sector of illegal Fund Managers/Wonder Banks through education, radio jingles, publications, sensitization and campaigns.

Bureaux De Change

With the licensing of 58 new BDCs during the year, the number of BDCs increased to 3,147 at end-December 2016. The BDCs were concentrated in four major locations in Nigeria, Lagos, Kano and Anambra States as well as the Federal Capital Territory, Abuja.

The CBN Circular on the use of Bank Verification Number (BVN) issued in 2015 became effective in 2016. The Circular emphasized, among others, that all customers desiring to purchase foreign exchange must provide BVN, which shall be validated by the Authorized Foreign Exchange Dealers through the Nigeria Interbank Settlement System (NIBSS) platform before the consummation of transaction. In a similar vein, all directors of Bureaux de Change were directed to submit their BVNs to the CBN.

In an attempt to ensure stability in the foreign exchange market, the following measures were deployed in the BDCs sub-sector during the year:

a. Sale of dollars to BDCs through the CBN window was suspended in January, with the BDCs required to source foreign exchange from autonomous sources.

b. The CBN directed Authorized Foreign Exchange Dealers, who were agents of the approved International Money Transfers Operators, to sell foreign exchange accruing from inward money remittances to licensed BDCs.

c. The suspension of the processing of applications for change of directors of BDC was lifted.

d. The Revised Operational Guidelines for BDCs issued in 2015 became operational.

The initiatives and collaborations of the CBN with other stakeholders continued to strengthen the OFI Sector and position it to deliver credible and reliable services in key sectors of the Nigerian economy.

1.06 IMPLEMENTATION OF THE NIGERIA HOUSING FINANCE PROGRAMME

The implementation of the Nigeria Housing Finance Programme progressed under the four components of the scheme, namely: Nigeria Mortgage Refinance Company (NMRC); Mortgage Guarantee and Insurance; Housing Microfinance; and Technical Assistance/Capacity Building.

Nigeria Mortgage Refinance Company

Following the successful issuance of ₦8.2 billion bond for the refinancing of legacy mortgages, the NMRC took steps to satisfy the requirements for the third tranche of the $250 million loan, to be applied as tier 2 capital. In accordance with the terms of the loan, the disbursement-linked indicator for the next tranche will involve the NMRC refinancing mortgages up to the Naira equivalent of $120 million that it had received.

However, after the last disbursement in June 2015, the Naira depreciated against the US Dollar, resulting in an increase in the Naira equivalent of the $120 million by about 100 per cent. This substantially increased the refinancing obligation of the NMRC compared with the initially estimated refinancing requirement. Consequently, the Project Administration Team and the World Bank commenced work on adjusting the disbursement-link indicator to resolve the challenge by using the historical rate at the point of disbursement to calculate the amount in mortgages required to be refinanced.

Housing Microfinance

To ensure the effective achievement of the objectives under this component, the country was segmented into two – North and South. The Project Administration Team secured the services of consultants to provide technical assistance in product development prior to on-lending in the South. However, the disqualification of the preselected consultants for the Northern part, delayed implementation in the region. To address this, other firms were invited to express interest in offering the required consultancy service.

Mortgage Guarantee and Insurance

A consultant was hired to carry out a study of the local environment to determine the model mortgage guarantee institution and/or product suitable for the Nigerian market. An inception report on the assignment is due in the first quarter of 2017.

Technical Assistance and Capacity Building

Individuals and firms were hired to facilitate the implementation of various aspects of the programme and to build the capacity of the participating financial institutions and other stakeholders. Advocacy visits to States in the forefront of the development of the programme aimed at accelerating land acquisition processes, titling procedures and adoption of model foreclosure laws were also embarked upon.

Other Development: Pre-financing Company

To address the challenges associated with funding mortgage creation, steps were taken by stakeholders to bridge the funding gap for mortgage origination through the conceptualization of a pre-financing institution.

The implementation of the Nigeria Housing Finance Programme is progressing under the four components of the scheme. The CBN will continue to partner with the government and other stakeholders to ensure that the programme is effectively and timeously implemented in order to achieve the overall objective of availability of housing finance.

1.07 NON-INTEREST BANKING IN NIGERIA

The efforts to ensure the growth and sustainability of the Non-Interest Financial Institutions (NIFIs) through policies and supervisory activities continued in 2016. Major developments in the NIFIs sub-sector included:

Implementation of Islamic Financial Services Board Standards 4, 15 and 16

An inter-agency committee of the CBN and the Nigeria Deposit Insurance Corporation was set up to oversee the implementation of Islamic Financial Services Board (IFSB) Standards 4, 15 and 16 in Nigeria. The Standards, which cover disclosure requirements, capital adequacy requirements and supervisory review and evaluation process, are the equivalents of Pillars I, II and III of the Basel II Accord.

The Committee, with technical support from the IFSB, developed Guidance Notes on credit risk, market risk, operational risk, income smoothing, disclosure requirements to promote market discipline, regulatory capital, supervisory review process and management of investment account holders.

On-site and Off-site Examination of NIFIs

The Risk Based Supervision examination of Jaiz Bank Plc and Compliance examination of Stanbic IBTC Bank Plc and Sterling Bank Plc non-interest banking windows revealed the following key issues:

a. Quality of Risk Assets: NIFIs were not immune to the headwinds in the economy as the quality of their risk assets deteriorated by 43.6 per cent, leading to an increase in their NPLs from 2.8 per cent at end-December 2015 to 4.1 per cent at end-December 2016. The adverse economic environment affected the ability of obligors to meet their maturing obligations.

b. Liquidity Management: This continued to be a challenge to NIFIs, due to the dearth of liquidity management instruments in the market. It is expected that the efforts of the Debt Management Office to develop a Sovereign Sukuk would ameliorate the challenge as well as deepen the investment securities market for NIFIs.

c. Risk Assets Creation: One of the NIFIs, as a result of software integration challenges, had been unable to deploy its CBN approved risk asset products. The bank had, however, been advised to expedite actions in this regard as this may constitute not only a cost to the bank but also a disincentive for customers.

Multinational and Cross-border Cooperation

As part of efforts to foster multinational and cross-border cooperation with regulators from other jurisdictions and international finance institutions, the CBN hosted the Committee for the Economic and Commercial Cooperation (COMCEC) project from November 14-18, 2016. The Committee, which comprised representatives of the central banks of Tanzania and The Gambia, was on a study tour of the Nigerian NIB sub-sector. During its visit, the Committee also visited Jaiz Bank Plc, Stanbic IBTC Bank Plc and Sterling Bank Plc.

The Islamic Corporation for the Development of the Private Sector (ICD), an agency of the Islamic Development Bank (IDB), engaged the CBN on the provision of funds for on-lending to select banks in Nigeria. Of the $120 million earmarked for this purpose, a total of $80 million had been disbursed. Following a proposal by the ICD on Public-Private Partnership, a preliminary meeting was held in November 2016 between officials of the IDB and CBN, to discuss modalities for the arrangement, with a formal engagement planned for the first quarter of 2017.

Activities of the Financial Advisory Council of Experts

The Financial Regulation Advisory Council of Experts (FRACE), a body of Islamic jurisprudence experts responsible for the provision of advisory services on non-interest banking to the CBN, held two meetings in the year. Highlights of its activities included:

a. Approval of products for NIFIs;

b. Review and approval of membership of Advisory Committees of Experts (ACE) for Jaiz Bank Plc and I-Care Microfinance Bank; and

c. An interactive session aimed at promoting the exchange of ideas between regulators and operators in the NIB sub-sector with the ACE members and key officers of NIFIs on April 11, 2016 in Abuja.

FRACE also responded to enquiries from stakeholders and provided guidance on issues relating to non-interest banking.

Other Developments in Non-interest Banking

Other developments in the non-interest banking sub-sector included:

i. The draft Guidelines for the Regulation and Supervision of Non-Interest Microfinance Banks in Nigeria was exposed to stakeholders during the year. The guidelines provide the framework for the licensing and supervision of non-Interest microfinance banks.

ii. In recognition of the liquidity challenges facing the sub-sector, a concessionary liquidity ratio of 10 per cent was approved for NIFIs as against the 30 per cent for conventional banks.

iii. A mechanism for interbank transactions that is consistent with the requirements of the Islamic banking model was initiated by the NIFIs as a means to provide alternative liquidity management instruments.

iv. Following the grant of Approval-in-Principle in 2015, a license with national authorisation was issued to Jaiz Bank in May 2016.

It is expected that continued CBN support and the momentum attained in the development of the non-interest banking sub-sector would further strengthen the market, especially in terms of the availability of viable investment and securities for liquidity management.

1.08 ANTI-MONEY LAUNDERING AND COMBATING THE FINANCING OF TERRORISM

During the year, the CBN issued a number of regulations including a circular directing deposit money banks (DMBs) to appoint executive compliance officers (ECOs) not below the rank of executive directors and chief compliance officers (CCOs) not below the rank of general managers. The CCO is required to report to the ECO, who in turn reports to the board of directors. This is to ensure that the boards are aware of Anti-Money Laundering and Combating the Financing of Terrorism (AML/CFT) issues on an ongoing basis, with a view to addressing them timeously.

Furthermore, to protect the banking system from potential Money Laundering and Financing of Terrorism (ML/FT) risks associated with virtual currencies, a cautionary notice was issued to the general public and financial institutions drawing attention to the risks associated with accepting or dealing in virtual currencies.

The Inter-Ministerial Committee on AML/CFT, the Nigerian Financial Intelligence Unit and the CBN concluded the country's maiden ML/FT National Risk Assessment (NRA) in compliance with the Financial Action Task Force (FATF) Recommendation 1 (Assessing Risks & Applying a Risk Based Approach). The final NRA Report, awaiting sign-off by the Presidency, would provide ML/FT risk information relating to customer, product, delivery channels and geographies to be used by financial institutions for ML/FT risk management purposes, among other things.

In addition, the CBN participated in the bi-annual Technical Commission/Plenary Meetings of the Inter-Governmental Action Group against Money Laundering in West Africa (GIABA), where ML/FT issues affecting member countries were discussed and strategies put in place to curb the emerging trends within the region. Nigeria presented her AML/CFT activities report to GIABA Plenaries in May, 2016 in Cape Verde and in November, 2016 in Dakar, Senegal and was commended for her efforts in fighting ML/FT.

The CBN strengthened its collaboration and cooperation with stakeholders, including the Office of the National Security Adviser, NFIU, the National Focal Point for Study and Research on Terrorism, and the Inter-agency Committee on Illegal Fund Managers in line with FATF Recommendation 2 to address the security challenges facing the country, especially the growing acts of terrorism.

Following a request from GIABA, a member of staff of CBN participated in the Mutual Evaluation Exercise (MEE) of Ghana in September 2016.

To facilitate the success of Nigeria's application for membership of the FATF, the CBN carried out a self-assessment exercise of institutions under its purview to evaluate the level of preparedness and compliance with FATF Recommendations. During the exercise, gaps were identified and recommendations for addressing the observed gaps forwarded to the banking industry ahead of the commencement of Nigeria's MEE by FATF/GIABA, a pre-requisite activity in FATF membership application process.

The CBN will continue to ensure compliance with the FATF Recommendations to preserve the health and reputation of the Nigerian financial system.

1.09 NON-PERFORMING LOANS IN THE BANKING SYSTEM

Nigeria experienced a downturn in revenue generation and economic activities following the drop in global price of crude oil. All the sectors of the economy were adversely affected including the banking sector, which had significant exposures to the oil and gas sector. At end-December 2016, the exposure of banks to the oil and gas sector was ₦4.9 trillion, representing 30.3 per cent of total industry loans and advances of ₦16.2 trillion, compared with ₦3.3 trillion or 24.8 per cent of total industry loans and advances of ₦13.4 trillion at end-December 2015.

Similarly, the concentration of credits by banks to the oil and gas sector resulted in an increase in the level of non-performing loans (NPLs) as obligors were unable to meet their obligations as and when due.

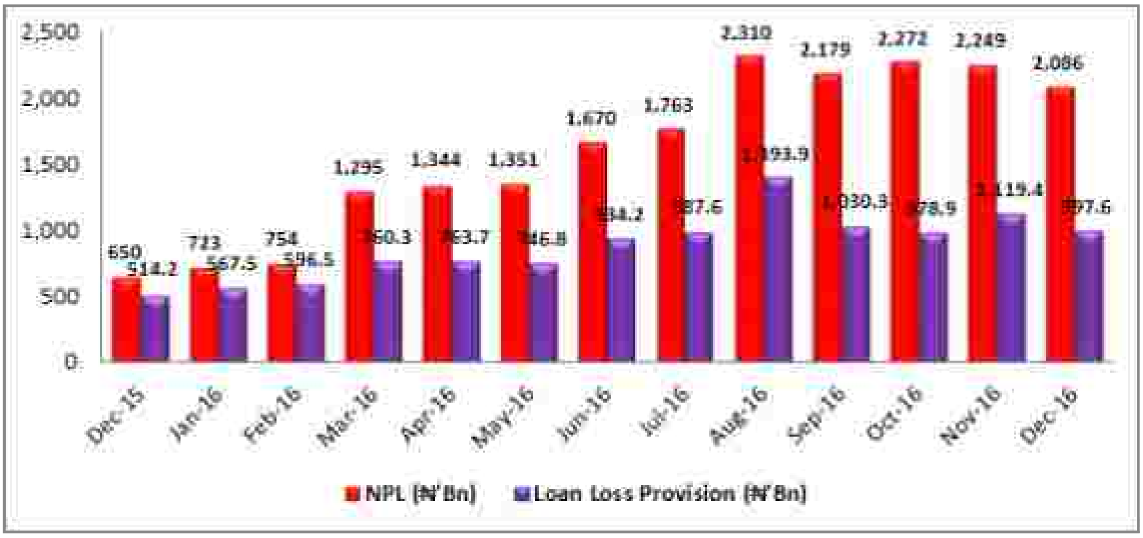
Trend in Non-performing Loans

The NPL trend as shown in Figure 2 below, revealed a rise in total industry NPL to ₦2.1trillion at end-December 2016 (representing 12.8 per cent of total industry loans and advances of ₦16.2 trillion) from ₦649.6 billion at end-December 2015 (representing 4.9 per cent of total industry loans and advances of ₦13.4 trillion).

Figure 2: Trend in NPL from end-December 2015 to end-December 2016

The loan loss provisions as a percentage of total non-performing loans, a measure of the adequacy of provision on NPLs, declined to 47.8 per cent at end-December 2016 from 79.2 per cent at end-December 2015 as shown in Figure 3 below:

Figure 3: Trend in Non-performing Loan and Loan Loss Provision (₦' Billion)



In addition to the general economic downturn, other contributory factors identified included, poor credit underwriting standards, activities of predatory borrowers, inadequate credit risk mitigation, aggressive competition and non-compliance with regulations.

To address the high level of NPLs in the industry, several measures were instituted including:

1. Enhancement of the Credit Risk Management System to strengthen credit risk management processes in banks;

2. Reinforcement of the culture of individual accountability with respect to the credit processes of banks, especially for principal officers responsible for facilities which subsequently become delinquent due to negligence or culpability; and

3. Grant of forbearance to banks to enable them write-off fully provisioned loans on their books without waiting for the mandatory one year period as required by extant regulations.

The increase in the level of NPLs in the banking industry was occasioned by a combination of the economic downturn and operating lapses. The CBN in response strengthened its supervisory and regulatory processes to ensure that banks maintain sound credit risk management practices to check the rising level of NPLs.

1.10 CYBER SECURITY IN THE NIGERIAN BANKING SYSTEM

In recent times, cyber-attacks have increased with financial institutions being the most vulnerable. They have been classified as high risk due to their nature and the magnitude of potential losses.

To ensure that the CBN and the entire banking system are adequately prepared to prevent attacks, detect and respond in the event of a successful attack, the CBN established the Cyber Security Working Group to develop a comprehensive cyber security strategy for the CBN and financial institutions under its purview. The working group was also charged with the responsibility for collaborating on and sharing best practices to address emerging or existing cyber security issues; improving the organization's cyber security programmes; establishing a cyber-response team as well as a Security Operation Centre, among others.

The working group reviewed various international standards and engaged a consultant to build in-house capacity and assist in the development of a cyber-security strategy. In this regard, the group completed the development of the CBN Cyber-Security Strategy and would in 2017 commence work on the implementation of the project covering six initiatives:

i. Intelligent Security Operations Centre;
ii. Threat Defence Tools;
iii. Enterprise Forensic Solution;
iv. Enterprise Mobility Management;
v. Payment Systems Security Review and Industry Health Check; and
vi. Capacity Building and Awareness.

The CBN is working towards an industry standard for cyber security for the deposit money banks and other financial institutions under its purview, in a bid to improve the resilience of the financial system against cyber threats/attacks. The CBN has also integrated cyber security risk and mitigation assessment into its Risk Based Supervision methodology.

The intention is not only to protect the CBN, but also to insulate the financial system from the risk of cyber-attacks by standardising cyber security efforts in the banking industry.

CHAPTER 2

FRAMEWORK FOR SUPERVISION

2.01 IMPLEMENTATION OF THE FRAMEWORK FOR FINANCIAL STABILITY

During the period under review, the Programme Management Office (PMO) of the programme on 'Crisis Preparedness in the Nigeria Financial System', sustained its efforts at implementing the framework for the enhancement of specific tools for managing the stability of the Nigerian financial system. The major achievements were in the following areas:

Financial System Stability

a. The draft Financial Stability Framework was developed;

b. An implementation roadmap for the establishment of the Financial System Stability Council, including its terms of reference, composition, functions, powers, funding and management, was prepared;

c. The rules of procedures and bye-laws for the FSSC and the database of existing arrangements with external stakeholders were developed; and

d. The draft frameworks on the three major component areas of Macroprudential Analytical Framework and Capabilities, Microprudential Supervision (Functions and Enhancement) and Crisis Management and Resolution Framework were largely completed.

Crisis Management Continuum

a. A draft Crisis Management Framework covering prompt corrective action, recovery and resolution plans, enhanced deposit protection arrangements, individual and systemic triggers was developed; and

b. A draft Crisis Management Handbook was also developed.

Data Gathering and Storage Capabilities (IT Infrastructure)

a. A feasibility study was carried out on the establishment of a centralized database across regulators in the areas of interoperability, common data definitions/standards, connectivity and transfer standards with adequate security and processes for accelerated data collection during crisis; and

b. Pursuant to the above, a Data Production and Sharing Framework was developed to enable regulators and operators submit the required data to a central database.

Organisational Restructuring and Human Capital Development

a. An audit of the existing skills and capabilities within the regulatory agencies was carried out; and

b. An organogram was developed for the Systemic Support Group (SSG), which would be charged with the responsibility of executing the overall strategy for developing human capital across the regulatory agencies.

Legal Underpinning
A draft bill was developed to underpin financial system stability in Nigeria.

Stakeholder Engagement and Sensitization
A comprehensive draft Communications Strategy Framework was developed. The draft framework provides a guide on transparency of financial stability and decision making procedures by articulating processes and governance structures across the crisis continuum.

The successful implementation of the framework for financial stability in Nigeria will not only enhance the resilience of the financial system, but also significantly minimize the occurrence of crisis and improve the capacity to manage crisis. It is also expected to pave the way for future prosperity by eliminating/minimizing the disruptive effects of boom and bust cycles.

2.02 CONSUMER PROTECTION FRAMEWORK

In pursuit of its mandate of protecting consumers of financial products and services and promoting confidence in the financial system, a Consumer Protection Framework (CPF) was issued in November, 2016. The broad objective of the framework is to ensure that consumers are adequately protected and fairly treated. The CPF is also to ensure that financial institutions develop robust consumer risk management frameworks, facilitate timely complaints resolution, empower consumers to make informed decisions and promote professionalism. It also details the rights and responsibilities of consumers.

The framework covers nine high-level principles, stipulating the minimum expectations from financial institutions. The provisions of the nine principles constitute the pillars on which relevant guides will be issued. The highlights are presented below:

i. Legal, Regulatory and Supervisory Structures
The first principle recognises the importance of effective legal, regulatory and supervisory structures in order to protect consumers of financial products and services against exploitation by financial institutions.

ii. Responsible Business Conduct

This principle deals with the need for financial institutions to exhibit high level of professional and ethical standards in their relationship with consumers. In this regard, financial institutions are required to profile their customers based on their financial capabilities, needs, and other relevant circumstances in order to offer them suitable products and services.

iii. Disclosure and Transparency

Under this principle, financial institutions are to provide clear, accurate, timely, and detailed information on their products and services to enable consumers make informed decisions. Emphasis would be placed on contract terms, notice of variation and advertisements.

iv. Consumer Financial Education

This principle focuses on the development and implementation of a financial literacy framework in collaboration with relevant stakeholders taking into cognisance consumer segmentation, content development, strategy, consultation and collaboration as well as monitoring and evaluation.

v. Fair Treatment

The objective here is to ensure that consumers are treated fairly and equitably with emphasis on access to finance, equity and terms of contract.

vi. Protection of Consumer Assets, Data and Privacy

This principle focuses on the protection of consumers' financial assets and information. In this regard, financial institutions are to establish policies and controls to safeguard consumer assets against fraud. To achieve this goal, financial institutions may use sophisticated software and transaction monitoring systems in their internal processes and operations.

vii. Complaints Handling and Redress

This principle is concerned with the provision of redress mechanisms that are affordable, accessible, fair, timely, transparent, and independent. Specifically, the principle deals with complaints channels, complaints management processes, complaints redress and collaboration with other bodies.

viii. Competition

To ensure that consumers enjoy the benefits of their relationships with the financial institutions, the competitive principle requires that competition shall be promoted to encourage innovation, offer consumers diverse range of financial products and services, and excellent service delivery. To achieve these goals, consumers shall be free to select and/or change their financial service providers without hindrance.

ix. Enforcement

To ensure compliance with consumer protection regulations, the CBN, in collaboration with other stakeholders, will establish and implement effective enforcement mechanisms, including the imposition of sanctions on erring financial institutions.

The Framework also outlines the rights and responsibilities of consumers in their relationship with financial institutions. These include:

a. Access to accurate and timely information on products and services to enable them make informed decisions;

b. Access to knowledge through education which would enable them make informed and confident financial decisions to enhance their economic well-being;

c. Freedom to choose from a variety of products and services on offer at competitive rates without restrictions or compromising quality as well as opting out when services are no longer satisfactory, provided outstanding commitments are settled;

d. Access to a safe and conducive banking environment, channels and platforms in their relationship with the financial institutions;

e. Assets and information protection from unauthorized access and disclosure;

f. Access to efficient redress mechanisms that are affordable, fair, timely, transparent, accessible and independent, for the settlement of complaints or disputes; and

g. Access to fair treatment regardless of any existing complaint or dispute, financial knowledge or status, physical ability, age, gender, tribe or religion.

The responsibilities of consumers include:

a. Acquiring requisite financial knowledge that will help them manage their personal finances;

b. Honouring their obligations in contractual relationships with financial institutions and informing financial institutions of challenges impeding their ability to meet contractual obligations;

c. Protecting their financial instruments and information from unauthorized persons/access;

d. Providing accurate and current information as well as clear mandates/orders to their financial institutions; and

e. Reporting unethical practices, fraud and errors, as well as misconduct by staff of financial institutions.

The issuance of the framework represents a milestone that affirms the commitment of the CBN in ensuring that consumers of financial products and services are fairly treated. Effective implementation of the framework would enhance the protection of consumers and engender consumer confidence in the financial system. The CBN will in due course develop appropriate guidelines, where necessary, to implement the principles.

2.03 GUIDANCE NOTES ON THE IMPLEMENTATION OF IFRS 9 (FINANCIAL INSTRUMENTS) IN THE NIGERIAN BANKING SECTOR

The International Accounting Standards Board (IASB) completed its work on IFRS 9 (Financial Instruments), in July 2014. The Standard replaces IAS 39 (Financial Instruments: Recognition and Measurement) and comes into effect on January 1, 2018. The main thrust of IFRS 9 is the introduction of a more risk sensitive valuation of assets and liabilities, with an Expected Credit Loss (ECL) impairment model as against the Incurred Loss model used in IAS 39.

To ensure the effective implementation of the standards in the banking industry, the CBN, on December 20, 2016, issued Guidance Notes to provide clarification on supervisory expectations for the development of ECL models. Areas covered in the Guidance Notes include:

i. Determination of Significant Increase in Credit Risk, Staging and Transfer Criteria

IFRS 9 identifies three stages of credit risk impairment. Stage 1 (12-months ECL) includes financial instruments with no significant increase in credit risk since the initial recognition, while Stage 2 includes financial instruments with significant increase in credit risk but with no objective evidence of impairment. Stage 3 comprises financial instruments with objective evidence of impairment at the reporting date, that is, defaulted facilities. Stages 2 and 3 require the recognition of Lifetime ECL. Exposures can also be transferred from Lifetime Credit Losses to 12 months ECL if there is no longer a significant increase in credit risk. However, the Standard did not provide explicit guidance on the determination of significant increase in credit risk, staging and transfer criteria for credit facilities.

Accordingly, the Guidance Notes requires banks to:

a. Utilize the 30 days past due rebuttal presumption permitted by the standard in limited circumstances. If this presumption is rebutted on the basis that it does not signify significant increase in credit risk based on prevailing circumstances, the bank shall accompany the assertion by documented, reasonable and supportable information to show that a more lagging criterion is appropriate.

b. Continue to monitor financial instruments deemed to have witnessed significant reduction in credit risk for a probationary period of 90 days to confirm if the risk of default has decreased sufficiently before upgrading such exposure from Lifetime ECL (Stage 2) to 12-months ECL (Stage 1). In addition to the 90 days probationary period above, banks are expected to observe a probationary period of 90 days to upgrade from Stage 3 to 2. For the avoidance of doubt, banks are required to observe a probationary period of 180 days before upgrading a financial asset from Lifetime ECL (Stage 3) to 12-months ECL (Stage 1).

c. Adopt a definition of "default" consistent with the provisions of Paragraph 12.1(b) (2) of the Prudential Guidelines for Deposit Money Banks in Nigeria, 2010.

ii. Estimation of Parameters underlying ECL Models

Banks are required to adopt ECL methodologies commensurate with their size, complexity, structure, and risk profile. Also, the level and volatility of historical credit losses, complexity of products and other lending related modelling methodologies should be considered in determining the level of sophistication required in implementing the ECL model.

Given that most ECL models require the determination of Probability of Default (PD), Loss Given Default (LGD), Exposure at Default (EAD) and Discount Rate, the Guidance Notes details the factors to be considered in estimating these parameters.

iii. Requirements for ECL Model Validation

Banks are required to have policies and procedures to validate models used to assess and measure ECL.

The model validation should be carried out when their ECL models are initially developed as well as when significant changes are made to the models. This is to be performed independent of the model development by experienced personnel with requisite expertise. The outcome of the validation process should be documented and subjected to review by the bank's internal and external auditors.

iv. Use of Low Credit Risk Simplification

IFRS 9 permits banks to use the "low credit risk simplification" and assume that a financial asset classified as having low credit risk has not witnessed significant increase in credit risk, thus ruling out the computation of Lifetime ECL on such exposures. In this regard, banks are expected to exercise this simplification in limited circumstances for only risk free and gilt-edged securities.

v. Write-off of Non-performing Exposures

The Guidance Notes addresses the conflict between the Prudential Guidelines and Paragraph 5.4.4 of IFRS 9, which requires entities to write-off the portion of the gross carrying amount of a financial asset for which the entity has no reasonable expectations of recovering, with such write-off considered as a de-recognition event. Consequently, banks are directed to adhere to the provisions of the Prudential Guidelines on write-offs especially as they relate to the requirement for prior approval of write-off of insider-related facilities.

vi. Modified and Restructured Financial Asset

The modifications or renegotiations of credit facilities could mask increases in credit risk, thereby resulting in underestimation of ECL and/or delay in the transfer to lifetime ECL, for an obligor whose credit risk has significantly deteriorated. Consequently, banks are required to continue to recognize lifetime ECL on non-performing loans following a modification and/or renegotiation and only move them to 12-months ECL, if there is sufficient evidence to show that there had been no significant increase in credit risk over the life of the exposure, compared with that upon initial recognition. In addition, the bank should provide the history of up-to-date and timely payment of principal and interest, against the modified contractual terms for the required probationary period.

Other clarifications in the Notes include:

a. The need for banks to embrace the exception on retrospective application as the Standard permits an entity to restate prior periods financials only if it is able to do so without the benefit of hindsight.

b. The maintenance of Regulatory Risk Reserves, to warehouse shortfalls on ECL impairment, vis-à-vis prudential provisioning as stipulated in Section 12.4 of the Prudential Guidelines, remains extant pending the review of the Guidelines.

c. The commencement of parallel run of the new impairment system by all deposit money banks (DMBs), with effect from July 1, 2017, in order to ensure seamless transition to IFRS 9 by January 1, 2018.

d. The validation/certification of banks' IFRS 9 accounting policies, systems and models by their external auditors/independent consultants latest by the third quarter of 2017.

e. The submission of their IFRS implementation plans, covering project governance structure, gap analysis and impact assessment and expected credit loss model, not later than April 30, 2017. Also, banks are required to provide monthly updates on project implementation status to the CBN, with effect from May 2017.

The issuance of the initial Guidance Notes on IFRS 9 has provided clarification and direction for the implementation of the Standard in the banking industry. The CBN will continue to assess and monitor banks' preparedness to ensure its effective implementation by January 2018.

2.04 RECOVERY AND RESOLUTION: MINIMUM CONTENTS FOR RECOVERY PLANS AND REQUIREMENTS FOR RESOLUTION PLANNING

The CBN and the NDIC, on September 5, 2014, issued the Framework for the Regulation and Supervision of Domestic Systemically Important Banks, to limit the economic impact of their distress and promote financial system stability. A major requirement of the Framework is the annual submission of Recovery and Resolution Plans (RRPs) by Domestic Systemically Important Banks (D-SIBs) to the CBN and the NDIC.

In compliance with this requirement, the eight designated D-SIBs submitted their RRPs for the year-ended December 31, 2015 in January 2016. A review of the plans revealed several disparities and key deficiencies, necessitating the issuance of additional guidance to standardise future submissions. The guidance, titled "Minimum Contents for Recovery Plans and Requirements for Resolution Planning", was issued to the industry in November 2016, and covers the following areas, with respect to recovery planning:

Legal Structure

D-SIBs are required to provide information on their legal structures. The key requirements in this area include information on organizational structure, board of directors and top management of all entities within the group, significant legal entities owned, supervisory authorities or agencies charged with resolving the significant legal entities, as well as the intra-group financial linkages.

Business Model
D-SIBs are required to provide information on their business models, including a high level description of their business strategy and core business lines/activities, mapped to the legal entities offering them; and details of shared service relationships and cost allocation among the entities. Furthermore, the contribution of each business line and subsidiary to the group's financial position, as well as the risk appetite statement showing the level of risk in each business line and material legal entity, are to be provided.

Critical Functions and Services
Each D-SIB is required to identify its functions and services that are critical to the smooth functioning of the financial system and the basis of the classification thereof. It is also required to identify factors that may impede its capacity to deliver the identified critical functions and services.

Scenario Design and Analysis
The guidelines require each D-SIB to articulate the actions it intends to take to cope with a wide range of shocks covering three sets of scenarios: idiosyncratic events, systemic events and a combination thereof. The scenarios are to include slow and fast moving events that are extreme but plausible along with the impact assessment on capital, earnings, liquidity, asset quality and reputation, among others.

Early Warning Indicators and Triggers
Information on early warning indicators, which signal negative trends prior to the breach of identified triggers, is required. Also, information on the triggers, which are pre-identified points at which D-SIBs enter recovery zones, is to be provided. D-SIBs are required to ensure that triggers (quantitative and qualitative) are developed or set, taking into consideration the need to ensure compliance with regulatory requirements at all times. The quantitative triggers are to be set around prudential indicators (capital, liquidity, asset quality, macroeconomic indicators, etc.) and the qualitative ones around specific actions/operations, such as default on obligations, loss of key management staff, adverse court rulings, and excessive reliance on the interbank market or the CBN discount window for funding.

Recovery Options and Impact Assessment
Each D-SIB is required to provide a comprehensive range of actionable recovery options designed to remedy financial weaknesses while maintaining market confidence during periods of stress as simulated under its scenario analysis. The actionable recovery options are to include plans for the injection of additional capital; sale, transfer or disposal of significant assets, portfolios, legal entities or business lines; suspension of lending; restructuring of liabilities; and foreclosure of assets.

The assumptions underlying each recovery option, estimate of the resources and timeframe for implementation, impact of each option on capital, liquidity and earnings and also on core business lines, critical functions and services and material entities, are to be provided. Information on the recovery options and impact assessment is also to cover the implications of the options on financial system stability, impediments to successful implementation and the mitigation techniques in place to address those impediments. The recovery options should include details of the structures and steps for their activation, execution and deactivation.

Clearing and Settlement Systems

D-SIBs are to provide information on their participation in the payments or settlement systems in which they conduct material transactions, including the list of Financial Market Infrastructure (FMI), indicating value and volume of transactions. Information is also required on the list of FMI that the D-SIBs have indirect access to in respect of payments or settlement operations; significant legal entities within the group that access FMI indirectly, including a description of how access is obtained; necessary comforts (e.g. pre-funding) that need to be delivered to the FMI to maintain direct participation in the FMI; existing contingency plans on alternative means to access the FMI indirectly or the process of application for direct access, if any. D-SIBs are also to provide information on any central counterparties in which they are material participants. Financial Information,

Funding and Derivatives

The guidelines require D-SIBs to provide summaries of their statements of financial position, profit or loss and cash flow at both solo and consolidated levels. Also, the resources available to material entities to fund their liquidity and capital needs are to be mapped to critical operations and core business lines, under "business as usual" and in the event of material financial distress or failure.

A high level description of policies on derivatives along with details of trades in derivatives, categorized into Forwards, Futures, Options and Swaps and underlying instruments and counter-parties and collaterals, are also to be provided.

Governance Structure and Management Information System

To ensure the effective integration of recovery planning into governance structures, the D-SIBs are to provide documentary evidence on the vesting of overall responsibility for the preparation and implementation of the RRPs in their boards and senior management teams. The RRPs are also to be validated by their internal and external auditors. Furthermore, detailed information on the Management Information System (MIS) that supports their business lines and critical operations is to be provided.

Integration of the RRP with Existing Frameworks

Information on the integration of the RRP into other operating frameworks, including the

Risk Management Framework, Contingency Funding Plan, Crisis Management Framework, Internal Capital Adequacy Assessment Process, Stress Testing and Business Continuity Plan, is also required.

Communication Plan and Information Management
The guidelines require the D-SIB to develop a comprehensive communication plan for the dissemination of timely and appropriate information to internal and external stakeholders (staff, investors, customers, regulators, etc.) upon the activation of the RRP.

Resolution Planning
Each D-SIB is to provide information that will assist the supervisory and resolution authorities in carrying out their statutory responsibilities, including bail-ins, financial assistance, holding actions, assisted mergers & acquisition, purchase & assumption, deposit transfers & deposit pay-out and liquidation, among others. Some of the information required include: details of payments due from shareholders on equity interests; senior, subordinated and intra-group debt instruments; schedules of loans and advances; credit waivers and accounts written off; insider-related facilities; and investment in quoted and unquoted companies. Also, information on the D-SIBs Single Customer View generation process and the latest audited accounts of their subsidiaries and associates, are to be submitted.

The Guidelines on minimum contents in RRPs was developed in line with international best practice drawing on the experiences of regulators and supervisors the world over. The expectation is that the Guidelines will assist D-SIBs develop more robust and standard RRPs, thus enriching the regulatory and supervisory processes, especially regarding D-SIBs.

2.05 REVIEW OF OPERATIONAL GUIDELINES FOR BLACKLISTING

Consistent with the Bankers' Committee decision of December 14, 1982, that a register of members of staff of banks dismissed on grounds of fraud and acts of dishonesty be kept to ensure that discredited or fraudulent persons were not re-engaged in the banking system, a register, called the 'BlackBook', has been in place. This is also in line with the provision of Section 48 (4) of BOFIA, Cap B3, LFN, 2004.

However, it was observed overtime that cases reported by deposit money banks were not limited to fraud and forgeries as originally intended, but had been erroneously extended to include cases such as lateness to work, abandonment of duty, among others. The inclusion of these other cases not only negated the intent and basis for the maintenance of the register, but also led to the CBN being inundated with petitions for the removal of names from the BlackBook. Furthermore, the failure of reporting institutions (DMBs) to comply with the requirement of fair hearing, through lack of thorough investigation and provision of avenue for redress for affected persons, led to incessant exchange of correspondence on the issue.

It was against this background that the CBN on June 28, 2016, issued the guidelines on the Review of Operational Guidelines for Blacklisting detailing the procedures to be adopted prior to the submission of staff names for inclusion in the BlackBook.

Blacklisting Procedure

The guidelines require that a Disciplinary Committee shall conduct a thorough investigation to determine whether or not a member of staff was involved in an act of fraud or dishonesty. The affected member of staff shall be given the opportunity to present documentary evidence and/or oral testimony in his or her defence. Thereafter, the decision of the Disciplinary Committee shall be availed to the management of the institution. Upon confirmation of the existence of grounds for blacklisting, the member of staff shall be notified in writing.

Rendition of Returns to the CBN

Reporting institutions are required to forward returns on dismissed or terminated persons (including temporary and contract staff) to the CBN along with the declaration that due process was followed in arriving at the decision to dismiss or terminate them.

Delisting

The guidelines also make provisions for the delisting of a blacklisted person. In this regard, a blacklisted person can only be delisted subsequent to the issuance of an order by a court of competent jurisdiction or a motion for reconsideration by the financial institution.

The issuance of the operational guidelines for blacklisting has enhanced the process of blacklisting/delisting of persons for cases of fraud and forgeries in financial institutions. It has also reduced the incidents of wrongful blacklisting, which was prevalent under the previous regime. The CBN will continue to ensure that only fit and proper persons are employed/retained in the banking system.

2.06 REDESIGNED CREDIT RISK MANAGEMENT SYSTEM

The Credit Risk Management System (CRMS), a regulatory tool designed to strengthen the credit appraisal process and discourage predatory borrowing in the banking industry, was redesigned in 2016.

The redesign addressed the challenges faced by the 1998 CRMS, which included: lack of unique identifier for bank borrowers/customers; exclusion of non-bank financial institutions from the rendition of returns; inability of the liquidator to update records of debtors of liquidated banks; and limitations on data analysis for prudential reports. The new application integrates reporting, data aggregation and analytics to provide a comprehensive database that supports credit risk management in the industry.

Highlights of the Redesigned CRMS

i. **Borrower Identification:** The introduction of Bank Verification Number (BVN) and Taxpayer Identification Number (TIN) for individual and non-individual/corporate borrowers, respectively, has resolved the challenge associated with the absence of unique identifier.

ii. **Real-time Authentication:** The submitted BVNs and TINs are auto-validated at the Nigeria Inter-bank Settlement System Plc and the Federal Inland Revenue Service/Joint Tax Board.

iii. **Disclosures:** The disclosure requirements have been enhanced with DMBs expected to provide information on the following prior to the disbursement of funds:

   a. Borrower's relationship with the lender;

   b. Details of loans and advances (with no upper or lower limits) before disbursement;

   c. All investment securities captured as part of loans and advances;

   d. Identification of Politically Exposed Persons;

   e. Sources of funds for credits (bank's balance sheet, intervention funds, foreign sources);

   f. Identification of Directors/Promoters of corporate borrowers; and

   g. Inclusion of e-mail notifications to all Directors/Promoters of corporate entities whenever details of facilities are submitted.

iv. **Removal of Reporting Threshold:** Reporting institutions are required to report all amounts to the database.

v. **Expansion of Participating Institutions:** The scope of reporting institutions has been expanded to include other financial institutions and the Asset Management Corporation of Nigeria (AMCON).

vi. **Identification of Guarantors:** The BVN (individuals) or TIN (non-individuals) of guarantors is required.

vii. **Use of modules:** Modules are used for critical components of the application to ensure that future upgrades will not require restructuring of the entire application.

viii. **Dishonored or dud cheques:** A portal for the rendition of returns for dishonored or dud cheques was created.

ix. **Regulatory compliance:** The data to be submitted is limited to business-as-usual information such as the offer letter, which is part of any standard credit approval process, thereby reducing the burden of compliance on the reporting institutions.

x. **Proper Identification of Directors/Promoters:** The identification of directors/promoters of non-individual entities precludes the rendition of returns on 'Ghost Directors' or minors.

The rendition of accurate, complete and reliable information in the CRMS to ensure its contribution to the soundness of the banking system and financial system stability cannot be overemphasised. In this regard, the commitment of stakeholders is critical to the achievement of the objectives of the redesigned CRMS, which is expected to Go-Live in the first quarter of 2017.

2.07 CORPORATE GOVERNANCE SCORECARD FOR THE BANKING SYSTEM

As part of its initiatives toward the entrenchment of sound corporate governance practices in the banking industry, the CBN developed a Corporate Governance Scorecard to assess banks' compliance with the Code of Corporate Governance for Banks in Nigeria. The Scorecard drew from the general and broad global principles/methodology on corporate governance.

The scorecard, a regulator-driven assessment, would complement banks' self-assessment returns on compliance with the code and address the inherent flaws in the self-assessment system.

Principles Underlying the CBN Corporate Governance Scorecard

The Corporate Governance Scorecard is predicated on the following:

a. A platform for the assessment of corporate governance practices in banks;

b. Global principles and recognized standards in corporate governance practices;

c. Identification of gaps in banks' corporate governance practices with a view to taking appropriate steps to address them;

d. A robust methodology that allows quantitative assessment of the corporate governance practices of banks beyond compliance and box-ticking; and

e. Extensive and robust quality assurance processes that ensures independence and reliability of assessment.

Scorecard Segmentation and Scoring System

The scorecard measures the performance of banks in six key areas of the extant code of

Table 3: Corporate Governance Scorecard Weights

S/N	Areas	Weight (%)
1	Board and management	30
2	Equitable treatment of shareholders	15
3	Rights of other stakeholders	10
4	Disclosure and transparency	15
5	Risk management	20
6	Ethics and professionalism	10
	Total	**100**

The scorecard also contains bonus and penalty questions to provide further insight into the corporate governance practices of banks. In this regard, the bonus questions would award additional points to banks that exceed the requirements of the extant code while the penalty questions would reduce the points of banks with poor corporate governance practices.

Benefits of the Corporate Governance Scorecard in the Banking Industry

The application of the corporate governance scorecard in the banking industry will enhance the efficiency and sustainability of good governance practices, provide a uniform format for assessment and encourage banks to develop corporate governance compliance assessment systems. Other benefits include elevated awareness of corporate governance by the directors of banks, provision of incentives for improved governance practices through enhanced disclosure and possible award programmes and improvement of the perception of the public of the banking industry.

The scorecard, which was developed to entrench sound corporate governance practices, serves a dual purpose of measuring regulatory compliance and as a strategy performance management tool.

CHAPTER 3

SUPERVISORY ACTIVITIES

3.01 OFF-SITE SUPERVISION OF BANKS, DISCOUNT HOUSES, CREDIT BUREAUX AND FINANCIAL HOLDING COMPANIES

Off-site supervision, an integral part of the supervisory process provides the platform for monitoring financial institutions' returns and engaging them on issues of regulatory concern.

Developments in the domestic foreign exchange market and the quality of banks' risk assets underscored the need for enhanced off-site supervision of financial institutions in 2016. In this regard, supervisory measures were applied to address challenges inherent in the developments. Furthermore, efforts were intensified to ensure the safety and soundness of the financial system through the adoption of proactive measures to engender confidence in the system. Specifically, the off-site supervisory activities in the year under review included the following:

Licensing

A commercial bank, Providus Bank Limited, was licensed in May 2016 as a regional bank. This brought the total number of licensed banks to 26 (21 commercial banks, four merchant banks and one non-interest bank) at end-December 2016. There were also three non-operating financial holding companies. Further categorization of the banks, based on their authorised banking licenses, indicated that there were 10 international, 14 national and two regional banks, during the period.

Regulations

Several regulations were issued to strengthen supervisory oversight and provide guidance to financial institutions during the year, key among which were:

a. The Minimum Contents for Recovery Plans and Requirements for Resolution Planning, which was issued to guide the D-SIBs in developing their recovery and resolution plans.

b. The Guidance Notes to Banks and Discount Houses on the Implementation of IFRS 9 (Financial Instruments) in Nigeria. The Notes provided clarity on areas where banks are expected to exercise considerable judgment and/or elect to use simplifications permitted under the standard.

c. The Operational Guidelines for Blacklisting was issued to provide guidance for reporting members of staff of financial institutions terminated, dismissed or convicted on grounds of fraud and dishonesty to prevent their re-engagement in the financial system.

Statutory Returns

In compliance with the provisions of Section 25 of the BOFIA, financial institutions continued to render returns to the CBN as and when due. The returns provided information on the financial condition and performance of the institutions and the banking sector. This formed the basis for the development of supervisory plans for individual institutions and the industry.

Assessment of Board and Management

The need to ensure that only fit and proper persons occupy board and top management positions in financial institutions remained paramount during the period. In the reporting year, the appointment of 46 and 105 persons into board and top management positions were approved in line with extant regulations.

Publication of Financial Statements

In compliance with extant regulations on publication of audited financial statements by financial institutions, the financial statements of DMBs for the year ended December 31, 2015 were reviewed and approved for publication in 2016. The financial statements showed improvement in the performance of banks in spite of the prevailing macroeconomic conditions.

Branch Network

Approvals for the establishment and rationalisation of branches and other banking outlets were granted during the year with the network of branches declining to 5,571 at end-December 2016 from 5,634 at end-December 2015.

Credit Risk Management System and Private Credit Bureaux Database

At end-December 2016, the number of borrowers in the CRMS database increased to 221,822 from 157,501 at end-December 2015. The redesign of the CRMS, which commenced in 2015 recorded significant progress during the year with the redesigned CRMS expected to go-live in the first quarter of 2017.

Similarly, at end-December 2016, the average number of credit records in the database of the three private credit bureaux increased to 46.8 million, from 45.8 million at end-December 2015. This was partly attributed to the inclusion of the credit records of microfinance banks and finance companies in their databases. Also, the cumulative number of institutional subscribers at end-December 2016 increased to 1,348, from 1,102 at end-December 2015.

Monitoring and Enforcement

As part of efforts to enhance compliance with regulatory recommendations, the monitoring and enforcement unit reviewed the activities of banks to ensure that recommended remedial actions were implemented timeously. The activities of the unit involved follow-up examinations, enforcement of penalties and ad-hoc assignments.

Fraud and Forgeries

The incidence of fraud and forgeries in the banking system trended upwards with 19,093 cases of attempted fraud and forgeries reported at end-December 2016 compared with 13,100 cases at end-December 2015. However, in terms of value, the total naira amount involved decreased to ₦8.5 billion at end-December 2016, from ₦17.8 billion in 2015. The actual losses from fraud and forgeries also trended downward from ₦3.3 billion at end-December 2015 to ₦2.4 billion at end-December 2016. In respect of the dollar component, the amount involved and actual loss were $18.5 million and $0.6 million at end-December 2016 compared with $64.6 million and $0.7 million at end-December 2015.

Blacklisting of Errant Persons

During the year, 462 persons were blacklisted for fraud and dishonesty and barred from holding any employment in the financial system. Also, 123 persons were blacklisted for other miscellaneous offences bringing the total number of persons in the BlackBook to 21,318 at end-December 2016.

The CBN will continue to strengthen its off-site supervisory activities to ensure that the financial system remains resilient and stable.

3.02 ON-SITE SUPERVISION OF BANKS, DISCOUNT HOUSES, CREDIT BUREAUX AND FINANCIAL HOLDING COMPANIES

On-site examinations were carried out on institutions under the purview of the CBN, including foreign subsidiaries of Nigerian banks, during the year under review as follows:

Maiden Examination

The maiden examinations of Coronation Merchant Bank and FBN Merchant Bank were conducted following their conversion from Associated Discount House Limited and Kakawa Discount House Limited, respectively. The examinations revealed that the banks were adequately capitalized and complied with the conditions of their licenses during their first six months of operations.

Routine Examination

Twenty-three DMBs, three financial holding companies (FHCs), three credit bureaux and AMCON were examined during the year. The DMBs and FHCs were examined using the Risk Based approach to supervision, while the credit bureaux and AMCON were examined based on the Compliance approach to supervision.

The examinations revealed rising level of NPL as one of the challenges facing the industry. The NPL position was precipitated by the significant drop in crude oil prices and exchange rate depreciation that affected obligors' ability to meet their financial obligations. With the stabilization of the Naira exchange rate, improved crude prices and relative peace in the oil producing area of the Niger Delta, the high NPL position is expected to abate.

Using the four risk rating categories of Low (L), Moderate (M), Above Average (AA) and High (H), the result of the DMBs' examinations showed that the Composite Risk Rating (CRR) of one institution improved from M to L, while another deteriorated from M to AA compared with 2015 where the CRR of three institutions improved from AA to M while one deteriorated from M to AA. The remaining banks retained their 2015 CRRs.

During the year, two of the three FHCs were examined using the Consolidated Supervision Model developed by the Financial System Regulation Coordinating Committee's (FSRCC). The model involves the use of "Risk Based Solo-plus" approach to consolidate the Risk Based Supervision (RBS) reports of members of a group.

A major area of regulatory concern was the failure of the parents to properly ring-fence the operations of licensed banks from other subsidiaries. Also, there were no clear delineation of some functions in the group as some group members performed roles across the group without memoranda of understanding and/or service level agreements. However, this is being addressed by the CBN's strict enforcement of its extant rules on clear delineation of activities of holding companies and their subsidiaries.

Also, three credit bureaux and the AMCON were examined. The key challenges in the credit bureaux sub-sector were undercapitalization, poor risk management and corporate governance practices as well as high cost-to-income ratios.

Target Examination

i. Risk Asset Assessment Examination

The Risk Assets examinations of 24 banks as at December 31, 2015 were conducted during the year. The examinations focused on the risk assets of banks and the adequacy of their provisions thereon, in line with the provisions of the Prudential Guidelines for Banks and Discount Houses of July 2010. The examination revealed increases in the NPL ratios in most banks, evidencing deterioration in asset quality.

ii. Anti-Money Laundering Target Examination

Two Anti-Money Laundering/Combating the Financing of Terrorism (AML/CFT) examinations were conducted in 2016 to strengthen the AML/CFT regime in the banking industry. The first exercise covered seven D-SIBs while the second involved the head offices and branches of all the DMBs.

Key areas reviewed during the exercises included:

a. Compliance with the institution's AML/CFT Regulation;

b. International transfers of funds and securities of sums exceeding $10,000 or its equivalent to or from foreign countries;

c. Compliance with the regulation on the identification and management of Politically Exposed Persons (PEP);

d. Three-tiered Know Your Customer (KYC) requirements;

e. Suspicious Transactions Reporting;

f. Assessment of Customer Due Diligence (CDD) and verification of beneficial ownership;

g. Assessment of preservation and maintenance of records;

h. Conduct and adequacy of independent audit function to test compliance with AML/CFT procedures, policies and controls; and

i. Frequency, adequacy and revalidation of quarterly employee education and training programmes.

Some of the key findings were:

a. Absence of proper risk profiling of customers while on-boarding and inadequate continuous customer monitoring and data update;

b. Failure to render report to the NFIU resulting in the predominance of nil Suspicious Transaction Reports;

c. Under reporting and lack of regular review of PEP customers' information and transactions contrary to the requirements in the banks' AML/CFT policy manuals;

d. Inadequate training on AML/CFT;

e. Omission of some reportable local and foreign currency transactions by some banks; and

Non-compliance with the three-tiered KYC requirements.

The affected banks were sanctioned and directed to remedy the identified weaknesses, in order to mitigate their AML/CFT risks.

iii. Foreign Exchange Examination and Target Examination

Two examinations were conducted on Authorised Dealers (AD) for the periods October 2015 to March 2016 and April to September 2016. The first examination covered 22 DMBs and three merchant banks while 20 DMBs and four merchant banks were examined in the second exercise. The exercises were conducted to determine amongst others, compliance with foreign exchange extant rules and regulation and the utilization of the acquired foreign exchange.

Some of the contraventions of the CBN Foreign Exchange Manual and other extant rules and regulations, observed during the exercise included:

a. Rendition of false returns;

b. Operating above CBN approved Foreign Currency Trading Position limit;

c. Non-compliance with the regulatory net open position (NOP) limit;

d. Non-repatriation of balance of export proceeds;

e. Financing of "not valid for foreign exchange" goods;

f. Non-issuance of certificate of capital importation (CCI) and issuance of CCI in anticipation of FX receipt; and

g. Improper blotter management.

Several other on-site FX activities were carried out during the period due to the FX challenges facing the economy and the need to ensure judicious utilisation of scarce resources.

Spot Checks and Investigations

Various spot checks and investigations on banks' operations arising from off-site analysis, reports, whistle blowing and requests from other regulatory agencies, were conducted in the following areas:

I. Anti-money Laundering/Combating the Financing of Terrorism

Investigations were carried out in respect of the:

a. Banking activities of a Ponzi scheme operator -Tine God Network Limited;

b. Issuance and usage of multiple ATM cards to circumvent CBN's foreign exchange policies;

c. Diversion of a bank customer's presidential amnesty programme allowance;

d. Illegal activities of Money Transfer Operators through banks;

e. Linking of multiple accounts to single ATM cards; and

f. Accounts of some foreign nationals and entities, following allegation that the funds for the failed Turkish coup, was routed through them.

ii. Foreign Exchange

Spot checks were conducted in the following areas:

a. Export proceeds repatriation;

b. Compliance with the flexible exchange rate regime;

c. Exchange rate applied by banks on naira debit and credit cards;

d. Letters of credits negotiated with credit lines;

e. Utilization of the SMIS CBN Special Inter-bank FX transaction; and

f. Forward transactions.

Other investigations conducted were on compliance with the 60-40 rule; forward transactions for October and November, 2016; investment in securities payable in foreign exchange; and FX transactions on FMDQ OTC advised trading platform. These were geared towards ensuring good market conduct, consumer protection and compliance with rules and regulations.

Although the economic headwinds posed challenges to the banking system and the economy, the CBN continued to sustain its on-site supervision of the financial institutions. It is expected that prompt corrective actions and strict enforcement of extant rules and regulations would sustain the stability of the financial system.

3.03 ON-SITE EXAMINATION OF CROSS-BORDER SUBSIDIARIES AND BRANCHES

The supervision of the international operations of Nigerian banks using the Framework for Cross-border Supervision continued during the period with on-site examination of nine offshore subsidiaries and one parent holding company.

The choice of the subsidiaries visited was based on the outcome of off-site review, existence of issues of supervisory concerns and the programme of host supervisory authorities.

The RBS methodology was used for the on-site review of the cross-border institutions to determine the overall risk profile and assess the adequacy of the risk management practices and capital of the banks.

Five of the 10 examinations were carried out jointly in Ghana and The Gambia in line with the Memorandum of Understanding (MoU) of the West African Monetary Zone. Generally, findings of the examinations reflected improvements in the risk management practices of the subsidiaries and the oversight function of the parent banks.

In the same vein, under the MoU signed with the Commission Bancaire de l'Union Monetaire Ouest Africaine, two joint examinations were conducted on offshore subsidiaries of Nigerian banks in Benin and Senegal while the joint examination of a foreign parent of a Nigerian bank was also conducted in Togo. Furthermore, two solo examinations were conducted in selected foreign subsidiaries in Mozambique and Tanzania.

The examinations revealed that one subsidiary had a CRR of 'High', five had 'Moderate' while two had 'Above Average'. The reports of two joint examinations (one subsidiary and the foreign parent) were yet to be issued by the host supervisors as at the reporting date. The 'Above Average' and 'High' CRR were due to persistent operational losses, deterioration in risk assets, poor risk management, weak board and senior management oversight.

Anti-Money Laundering/Combating the Financing of Terrorism Examination

Two on-site AML/CFT examinations were conducted in Tanzania and The Gambia. The objectives of the examinations were to assess the subsidiaries' level of compliance with the:

a. Financial Action Task Force 40 Recommendations;

b. Basel Committee's guidance on sound management of risks related to money laundering and financing of terrorism; and

c. Country-specific AML/CFT legislation.

The AML/CFT examinations revealed absence of independent audit review of the AML/CFT compliance programme; lack of robust AML/CFT software; and inadequate AML training programme, AML policy plans, PEP documentation and customer due diligence.

In view of the importance of the cross-border operations of Nigerian banks, the CBN will continue to conduct offshore supervision of the entities on both solo and joint basis to ensure that they do not constitute threats to the financial stability of the home and host countries.

3.04 SUPERVISION OF OTHER FINANCIAL INSTITUTIONS

At end-December 2016 there were 4,240 Other Financial Institutions (OFIs) comprising six Development Finance Institutions (DFIs), 34 Primary Mortgage Banks (PMBs), 978 Microfinance Banks (MFBs), 75 Finance Companies (FCs), 3,147 Bureaux de Change (BDCs) and a Mortgage Refinance Company. This represented an increase of 335 compared with the 3,905 OFIs at end-December 2015.

In the face of the downturn in the economy, proactive steps were taken to dampen adverse economic impact on the activities of the OFIs sub-sector through elevated surveillance and on-site examinations, in line with the CBN Supervisory Framework for Banks and Other Financial Institutions in Nigeria.

A summary of the on-site examinations conducted during the period is as follows:

Microfinance Banks

A total of 753 MFBs were examined during the period under review. This involved the routine examination of 584 MFBs using the RBS methodology and 169 target examinations. The examinations revealed that short-term credits dominated the sub-sector, primarily driven by the sub-sector's short-term deposit structure. The prevalence of high levels of portfolio-at-risk coupled with weak risk management practices, particularly among the unit MFBs was also observed. Of the 584 MFBs examined, 311 had CRR of 'High'; 211 'Above Average'; 61 'Moderate'; and one 'Low'.

Development Finance Institutions

All the six DFIs were examined in 2016, including NERFUND which was under liquidation. The examination revealed significant deterioration in the quality of their assets, necessitating huge provisions for loan losses. Other issues of regulatory concern included weak capital base; restricted access to stable long-term funds; high operating costs; poor corporate governance practices; weak internal controls; weak enterprise risk management system; and difficulties in balancing profit and developmental objectives. Three of the DFIs had CRR of 'Above Average'; one 'Moderate'; and the remaining two 'High'.

Primary Mortgage Banks

The 34 PMBs (10 with National authorisation and 24 with State authorisation) were examined during the review period. Routine examination of 25 was conducted using the RBS methodology while target examination was conducted on the remaining nine PMBs which were on CBN watchlist. The average liquidity ratio of the sub-sector at end-December 2016 was 41.5 per cent, which was above the regulatory minimum of 30.0 per cent. This however, represented a decrease from the 58.2 per cent recorded at end-December 2015. Six of the PMBs had varying degrees of liquidity challenges and were being closely monitored. The examination identified other factors affecting the sub-sector to include poor corporate governance and risk management practices, investment of depositors' funds in non-permissible activities and direct involvement in investment properties. Of the 34 PMBs in operation, 18 had 'High' CRR; 12 'Above Average'; and four 'Moderate'.

Finance Companies

The reform of the FCs sub-sector continued in 2016. In order to measure compliance with the prescribed minimum capital of ₦100 million, target examinations were conducted on 75 FCs upon the expiration of the end-December 2015 deadline for recapitalisation. The examinations resulted in the retention of the 41 FCs that met the minimum capital requirement in the list of FCs. Also, the licences of 21 FCs were recommended for revocation comprising 13 FCs that did not meet the capital requirement and eight others for reasons including voluntary surrender of licence, insolvency and discontinuance of business. The names of this class of FCs were published in the Federal Gazette in line with Section 60 of BOFIA and liquidators appointed to wind-up their operations. An extension of 90 days was, however, granted to nine FCs that were willing to inject additional capital to meet the minimum capital requirement of ₦100 million.

Bureaux De Change

The BDC sub-sector was subject to only off-site surveillance in the year under review. Emphasis was placed on ensuring that operators contributed effectively to the stabilization of the exchange rate. To achieve this objective, the January 2016 suspension of BDCs from the forex market was reversed and DMBs permitted to resume the sale of forex to BDCs from proceeds of International Money Transfer Operators.

Nigeria Mortgage Refinance Company

The Nigeria Mortgage Refinance Company (NMRC) was examined in the last quarter of 2016. The examination revealed that at end-December 2016, the Company had refinanced mortgages amounting to ₦8 billion representing an increase of 381.9 per cent over the position at end-December 2015. The Company retained its "Moderate" CRR.

In order to promote a safe and sound OFI sub-sector, supervisory oversight of the sub-sector was sustained in line with the Supervisory Framework for Banks and Other Financial Institutions in Nigeria and other relevant guidelines. This has enhanced the contribution of the sub-sector to the growth of the economy.

3.05 IMPLEMENTATION OF THE TREASURY SINGLE ACCOUNT POLICY

In furtherance of reforms of public finance, the Federal Government of Nigeria (FGN), through a circular issued by the Office of the Accountant General of the Federation (OAGF), dated December 30, 2011, referenced TRY/A8 & B8/2011 and titled "Introduction of the Treasury Single Account (TSA) Component of Government Integrated Financial Management Information System (GIFMIS)", introduced effective 2012 Fiscal Year, the Treasury Single Account (TSA), to guide the financial operations of its Ministries, Departments and Agencies (MDAs). The circular, however, made provision for only the payment component of the policy. Consequently, a circular dated July 4, 2012, referenced TRY/A6 & B6/2012 and titled "Guidelines on Implementation of Government Integrated Financial Management Information System (GIFMIS)" was issued for the operationalization of the e-collection component.

Another circular dated March 19, 2015, referenced TRY/A1 & B1/2015 and titled "Introduction of e-Collection of Government Receipts", provided for the implementation of the collection component of the policy with effect from April 1, 2015. Accordingly, all payments due to the FGN or any of its MDAs shall be paid through DMBs or electronic channels, using the CBN Payment Gateway, into the Consolidated Revenue Fund or designated accounts in the CBN. The guidelines further devolved responsibilities to the OAGF, CBN, MDAs and DMBs in terms of their roles in the implementation of the TSA policy.

In February 2015, as part of a sensitization initiative, the CBN issued a circular soliciting the cooperation of the DMBs in the implementation of the TSA policy. The policy addressed both the local and foreign currency components of the balances of MDAs with the DMBs.

Given the initial indifferent response of the DMBs to the implementation of the policy, the need for compliance was elevated at the Bankers' Committee meeting of October 2, 2015, where it was resolved that accounts of DMBs should be directly debited by the CBN for all unremitted portions of MDA naira account balances in their custody. Consequently, the account of affected banks were debited in October 2015.

The implementation of the policy also involved on-site verification and reconciliation of the balances of the MDAs with the DMBs. Upon the conclusion of the exercise involving naira balances, banks in breach of the TSA policy were fined the sum of ₦8.9 billion.

With the successful implementation of the naira component of the TSA, the CBN commenced enforcement of compliance with the foreign currency component of the TSA policy in January 2016. This exercise also involved visitations, meetings and reconciliation exercises involving DMBs on the one hand and MDAs on the other.
Arising therefrom, eight DMBs were suspended from the Inter-bank Foreign Exchange Market effective August 23, 2016, for failure to fully remit the MDAs' balances in their custody. The suspension was subsequently lifted following further remittances from the DMBs and commitments by their managements on the outstanding balances.

Other options to ensure full compliance with the FGN directives were being considered by the CBN.

3.06 ACTIVITIES OF THE BANKERS' COMMITTEE

The Bankers' Committee held five bi-monthly regular meetings and one ad hoc meeting to deliberate on issues affecting the industry during the review period. In a bid to address the economic challenges facing the country, the Committee held a retreat on December 9, 2016 with the theme “Economic Recovery: The Role of the Banking Sector” during which recommendations on the way forward were proffered.

The specific areas affected by the Committee's activities included:

Financial Literacy

The Committee participated in the 2016 Global Money Week (also the Financial Literacy Day in Nigeria) on March 17, 2016 with support from Junior Achievement Nigeria. The theme of the day was “Take Part and Save Smart” with DMBs assigned States as permanent mentoring locations, following the recommendations of the Committee. The Take Part and Save Smart programme involved engagement with over 3,000 students in primary and secondary schools across the nation.

In the same vein, the World Savings Day 2016 was held on October 31, 2016 with each DMB required to adopt a school in a rural Local Government Area in two States across each of the six geopolitical zones of the country. This translated to a minimum of 12 locations per DMB. In addition to teaching in schools, banks granted interviews on radio and television in a bid to create awareness, sustain interest and encourage people to walk into banks, open accounts and start saving on that day.

Financial articles written by students were published daily in newspapers for the duration of the programme. Furthermore, financial literacy events were organised by banks; teachers and students in local schools were mobilized to participate in the activities; radio and television stations reported on the importance of savings; while posters and pamphlets on financial issues were distributed.

The CBN also approved the Financial Literacy Framework with plans in place for the integration of financial literacy into the academic curriculum.

Flexible Exchange Rate Regime

The Committee, in its meeting on June 9, 2016, deliberated on the new flexible exchange rate regime, which was subsequently introduced on June 15, 2016. The exchange policy, driven by activities in the inter-bank market, was to enhance efficiency and facilitate a more liquid and transparent foreign exchange market.

Financial Inclusion

The Financial Inclusion Secretariat, under the auspices of the Bankers' Committee, recorded progress in the implementation of the Financial Inclusion Strategy. The milestone achieved included the introduction of the pass-through deposit insurance for mobile money subscribers and cover for microfinance banks by the Nigeria Deposit Insurance Corporation; establishment of a new department for coverage of informal pensions by National Pension Commission (PENCOM); and creation of a National Collateral Registry.

The Secretariat also confirmed the attainment of 68.5 per cent financial inclusion as it pressed towards its 2020 target of 80.0 per cent.

Financial Markets

The Bankers' Committee, in collaboration with the FMDQ, was instrumental to the speedy and seamless deployment of Thomson Reuters Foreign Exchange market solution and the operation of trading on order book module, which commenced on August 8, 2016. This was subsequent to the completion of the profiling of FMDQ dealing member banks and the on-boarding of corporates on Relationship Trading and Auction Systems.

Agricultural Sector Intervention

A new initiative on agricultural funding by the banking sector was deliberated upon by the Committee. The agricultural fund, which is similar to the SMEISS fund, would involve the setting aside of 10.0 per cent of banks' profit before tax, for intervention in the agricultural sector. The fund which is to take effect from end-December 2016 is designed as an equity fund to support crop production for export.

Industry Competency

In the last quarter of 2016, the Sub-committee on Competency and Industry Standards developed a list of the relevant professional bodies' certificates acceptable for Controlled Functions in the industry.

Ethics and Professionalism

The Sub-committee on Ethics and Professionalism adjudicated on 136 cases during the period with 79 cases resolved and 57 awaiting resolution. A total sum of ₦27.6 billion and $1.1 million were in dispute in respect of all the cases. The sum of ₦3.0 billion and $0.1 million were awarded on the resolved cases.

The Bankers' Committee continued to play critical roles in the financial services industry by providing platform for engagement between the regulatory/supervisory authorities and DMB operators in the financial system. It is expected that the collaboration would continue to contribute to the safety and soundness of the financial system.

3.07 CONSUMER PROTECTION ACTIVITIES

During the year under review, the consumer protection initiatives of the CBN received additional impetus in enhancing consumer confidence in the financial system. In this regard, the CBN issued a consumer protection framework, engaged in financial literacy activities, managed and resolved consumer complaints, and conducted consumer compliance examination. The activities in the above areas are summarised below:

Consumer Protection Framework

A consumer protection framework was issued to the financial industry. The broad objective of the framework is the codification of minimum standards for business relationships between institutions and their customers. The framework covers nine principles and outlines the rights and responsibilities of consumers.

Financial Literacy Activities

In the areas of financial literacy, the CBN carried out the following activities:

a. Held the "CBN Fair" in 12 locations, Ado-Ekiti, Lokoja, Yola, Jalingo, Birnin Kebbi, Sokoto, Uyo, Enugu, Yenagoa, Benin City, Makurdi and Lafia. The objective of the programme was to create awareness amongst Nigerians on the activities of the CBN, including consumer protection.

b. Collaborated with other stakeholders to develop the Financial Education curriculum for basic and senior secondary schools and obtained approval from the National Council on Education for the curriculum. The curriculum was infused into subjects, such as English Language, Religion and National Values, Business Studies & Commerce, and Economics & Accounting. It is expected that the financial education curriculum would be launched at the beginning of the 2017/2018 academic session.

c. Collaborated with development partners to publish the Financial Literacy Trainers' Guide and the Cashbook for Household & Business to sensitise operators of micro, small and medium enterprises as well as farmers, identified as the most economically active segments for intervention in order to improve financial literacy and financial inclusion.

d. Participated in the 2016 annual Global Money Week to stimulate children and youth on issues relating to savings culture and investment. The week-long activities covered Global Money Walk to raise awareness on the objectives of the programme; financial literacy exhibition and quiz for school children; as well as School Mentoring and Reach-Out programme in, Gombe, Enugu, Ebonyi, Bauchi, Nasarawa and Taraba states, and the FCT. The School Mentoring and Reach-Out Programme sensitised 910 children on financial literacy issues, such as savings and investments. The Bankers' Committee also implemented a school mentoring programme in 23 states, which impacted about 3,450 children.

e. Collaborated with the Bankers' Committee, Securities & Exchange Commission and other stakeholders to commemorate the World Savings Day, held on October 31, 2016. During the event, over 200 secondary schools across the six geopolitical zones of Nigeria were visited. Specifically, the CBN visited 14 secondary schools in 14 states across the six (6) geopolitical zones, engaging 780 participants.

f. Participated in the Child and Youth Finance International (CYFI) summit in Bucharest from June 28 – 29, 2016, where the CYFI launched a 5-year global strategic plan to drive financial literacy amongst children and youth. The CBN participated as a plenary speaker in a session aimed at discussing challenges in the implementation of financial literacy programme in Nigeria.

g. Engaged relevant stakeholder organisations including the Consumer Protection Council, the Small and Medium Enterprises Development Agency, the Public Complaints Commission and the National Association of Microfinance Banks to synergise and collaborate on consumer protection and financial literacy.

Complaints Management and Resolution

Regarding the management and resolution of complaints:

a. A total of 2,656 complaints were received against financial institutions in 2016, compared with 1,777 received in 2015. Of the 2,656 complaints received, 2,551 (96.0 per cent) were against banks, while the remaining 105 (4.0 per cent) were against OFIs. The number of complaints resolved rose from 1,138 in 2015 to 2,085 in 2016, an increase of 83.0 per cent.

b. Financial institutions refunded ₦21.3 billion, $3.1 million, and €19,263.0 to their customers in 2016 compared with refunds of ₦6.3 billion and $10.6 million in 2015. Cumulative refunds made to consumers from 2010 to 2016 were: ₦44.7 billion, $15.8 million, €19,346.6 and £6,000.0.

c. The CBN mediated in 22 disputes involving banks, their customers and/or customers' representatives in 2016, compared with 32 in 2015.

d. The CBN sanctioned five banks for failure to comply with regulatory directives pursuant to the provisions of Section 64 of BOFIA.

Consumer Protection Compliance Examination

Compliance examinations were conducted on 17 and 15 deposit money banks in April and November 2016, to ascertain the banks' levels of compliance with consumer protection policies, regulatory directives and guidelines, particularly the Guide to Bank Charges.

The findings from the examinations revealed an average level of compliance by the financial institutions. While compliance with charges on Remote-On-Us Automated Teller Machine Withdrawals and Payment of 30.0 per cent of MPR as Interest on Savings Accounts was adjudged good, compliance with charges for issuance and maintenance of foreign currency debit cards, and Current Account Maintenance Fee, was considered poor.

Consistent with its enhanced consumer protection philosophy, the CBN, in 2016, reinforced efforts to protect consumers from excesses of financial institutions by according increased priority to financial education and market conduct regulation. It also continued to provide accessible, convenient and transparent redress mechanism to consumers of financial services.

CHAPTER 4

PERFORMANCE TREND IN THE BANKING SYSTEM

4.01 PERFORMANCE TREND OF BANKS

The total assets of the 25 DMBs increased by ₦3,202.9 billion (11.9 per cent) to ₦30,221.4 billion at end-December 2016 from ₦27,018.5 billion at end-December 2015. The assets on the statement of financial position of the DMBs were represented by cash; balances with banks and CBN; loans and advances to banks and customers; financial assets (held-for-trading, available-for-sale and held-to-maturity); investments; other assets; and property, plant and equipment. Net loans and advances to customers constituted the largest item on asset side of the aggregated statement of financial position of DMBs and increased by ₦2,436.4 billion (20.1 percent) to ₦14,577.5 billion at end-December 2016 from ₦12,141.1 billion at end-December, 2015.

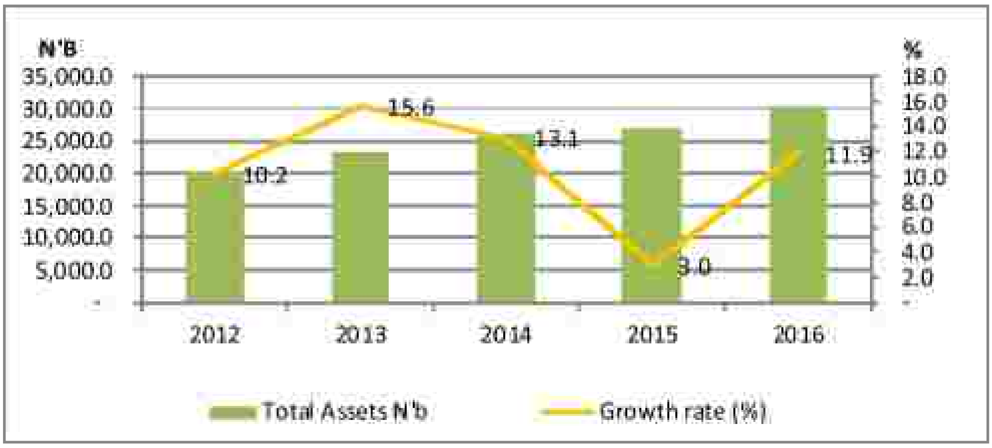
Deposits from customers constituted the largest liability item (61.5 per cent) of the DMBs. Deposits increased by ₦1,087.7 billion (6.2 per cent) to ₦18,589.7 billion at end-December 2016 when compared with the ₦17,502.0 billion recorded at end-December 2015.

The year-on-year growth rate of the total assets between end-December 2012 and end-December 2016 was above 10.0 per cent except between end-December 2014 and end-December 2015 when the growth rate was about 3.0 per cent. The reduced growth rate, then, was due largely to the reduction in deposits as a result of the transfer of government deposits to the CBN under the TSA policy. The aggregate statement of financial position of DMBs at end-December 2016 and 2015 is shown in Table 4:

Table 4: Aggregate Statement of Financial Position of the DMBs

	2016		2015		Variance	Growth Rate
	₦'billion	%	₦'billion	%	₦'billion	%
Cash balances	536.7	1.8	480.9	1.8	55.9	11.6
Balances with banks and CBN	5,828.9	19.3	5,694.0	21.1	134.9	2.4
Loan and Advances to Banks	345.9	1.1	476.8	1.8	(130.9)	(27.5)
Loans and Advances to Customers	14,577.5	48.2	12,141.1	44.9	2,436.4	20.1
Financial Assets Held for Trading	936.0	3.1	530.2	2.0	405.8	76.5
Financial Assets Available for Sale	2,715.7	9.0	2,869.5	10.6	(153.8)	(5.4)
Financial Assets Held to Maturity	2,353.6	7.8	2,288.6	8.5	65.0	2.8
Assets Pledged as collateral	560.8	1.9	424.1	1.6	136.7	32.2
Investment in subsidiaries	326.9	1.1	309.4	1.1	17.5	5.7
Other Assets	1,185.1	3.9	981.3	3.6	203.8	20.8
Assets classified as Held for Sale	4.1	0.0	5.9	0.0	(1.8)	(30.2)
Property Plant & Equipment	850.1	2.8	816.7	3.0	33.4	4.1
Total Assets	**30,221.4**	100.0	**27,018.5**	100.0	3,202.9	11.9
Deposit from banks	724.1	2.4	650.9	2.4	73.2	11.2
Deposit from customers	18,589.7	61.5	17,502.0	64.8	1,087.7	6.2
Financial liabilities held for trading	42.1	0.1	17.2	0.1	24.9	144.2
Borrowings	2,732.8	9.0	2,162.7	8.0	570.1	26.4
Debts instruments in issue	1,009.3	3.3	700.0	2.6	309.2	44.2
Other liabilities	3,368.5	11.1	2,496.3	9.2	872.2	34.9
Share Capital	263.6	0.9	249.7	0.9	13.9	5.6
Reserves	3,491.2	11.6	3,239.6	12.0	251.6	7.8
Total Liabilities & Equity	**30,221.4**	100.0	**27,018.5**	100.0	3,202.9	11.9

Figure 4: Year-on-Year Growth in Total Assets



Deposit Liabilities and Liquidity

Demand deposits constituted the largest proportion of total deposits held by the DMBs. It stood at ₦6,267.0 billion (33.7 per cent of total deposits) at end-December 2016 compared with ₦5,930.0 billion (33.9 per cent) at end-December 2015. Term, domiciliary, savings and other deposits accounted for 21.6 per cent, 24.6 per cent, 19.9 per cent and 0.1 per cent at end-December 2016 compared with 26.9 per cent, 21.1 per cent, 17.4 per cent and 0.1 per cent, respectively at end-December 2015. The increase in domiciliary account balances was largely due to the depreciation of the Naira.

The industry liquidity ratio (specified liquid assets as a ratio of specified short term liabilities) averaged 44.0 per cent at end-December 2016 compared with 48.6 per cent at end-December 2015. This was, however, above the regulatory minimum of 30.0 per cent.

Figure 5: Deposit Composition (per cent) in December 2015

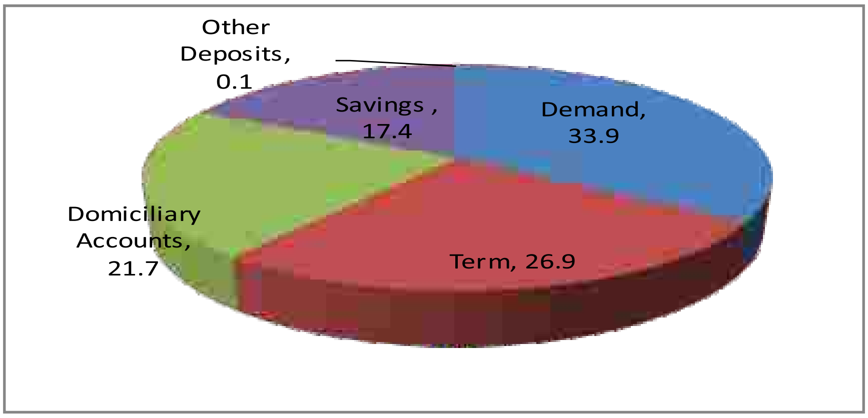


Figure 6: Deposit Composition (per cent) in December 2016

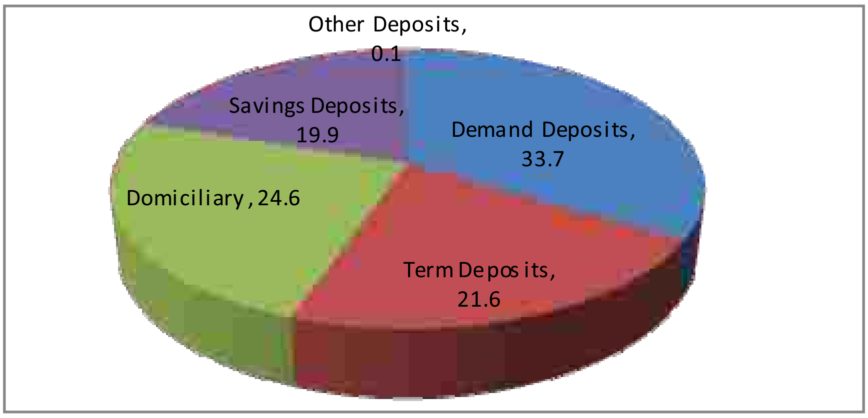
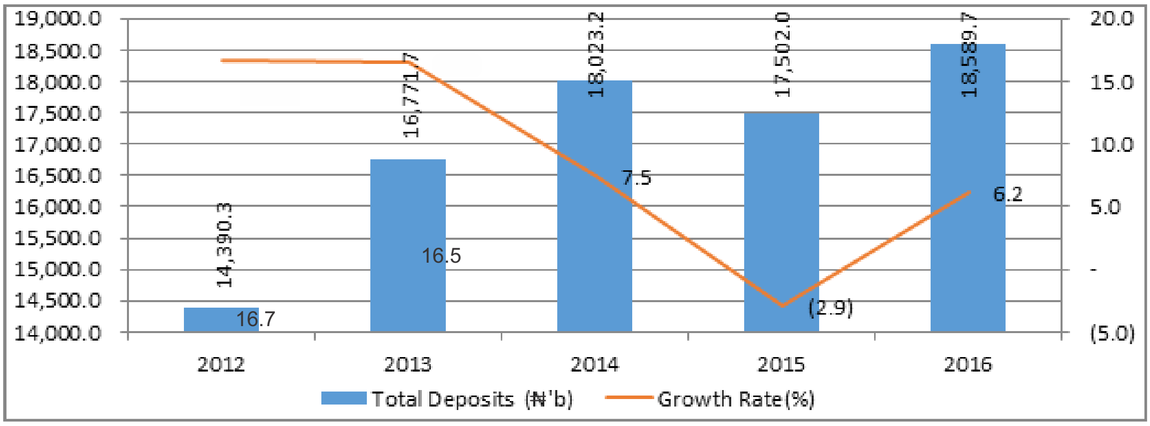


Figure 7: Trend in Total Deposits of DMBs

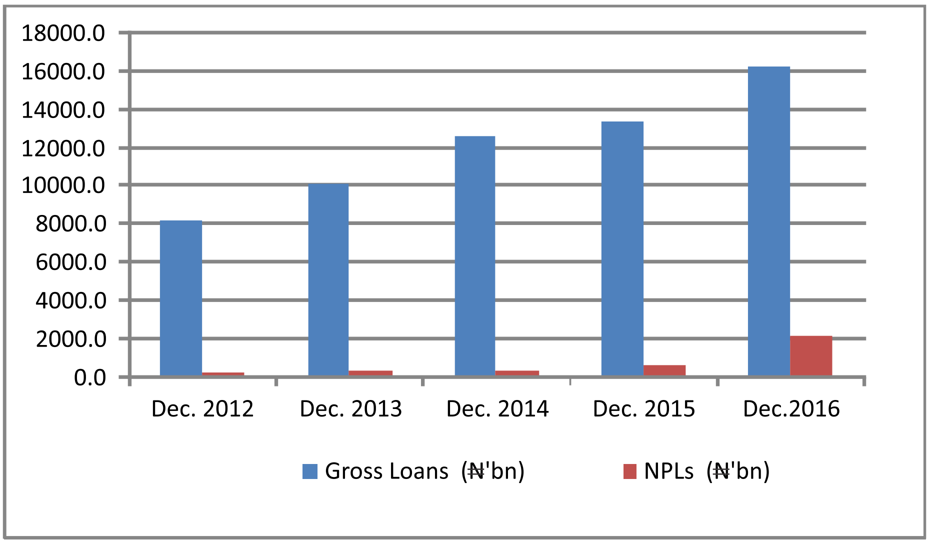


Asset Quality

Gross credit increased by ₦2,939.3 billion (22.0 per cent) to ₦16,293.5 billion at end-December 2016 from ₦13,354.2 billion at end-December 2015. The quality of the credits however, deteriorated as evidenced by the increase in the NPLs ratio and value which increased to 12.8 per cent and ₦2,084.9 billion at end-December 2016 from 4.9 per cent and ₦649.6 billion at end-December 2015, respectively. The deterioration was ascribed to both internal and external factors, including poor credit underwriting standards, inadequate credit risk mitigation, drop in the price of oil, reduced cash flow of obligors in the oil and gas sector as well as other macroeconomic challenges faced by banks and the obligors.

The provisioning on NPLs increased to ₦997.5 billion at end-December 2016 from ₦514.2 billion in at end-December 2015. Also, at end-December 2016, banks set aside ₦522.34 billion in the Regulatory Risk Reserve created to warehouse shortfall between prudential loan loss provision and impairment charges based on IFRS.

Figure 8: Trend in Gross Loans and NPLs



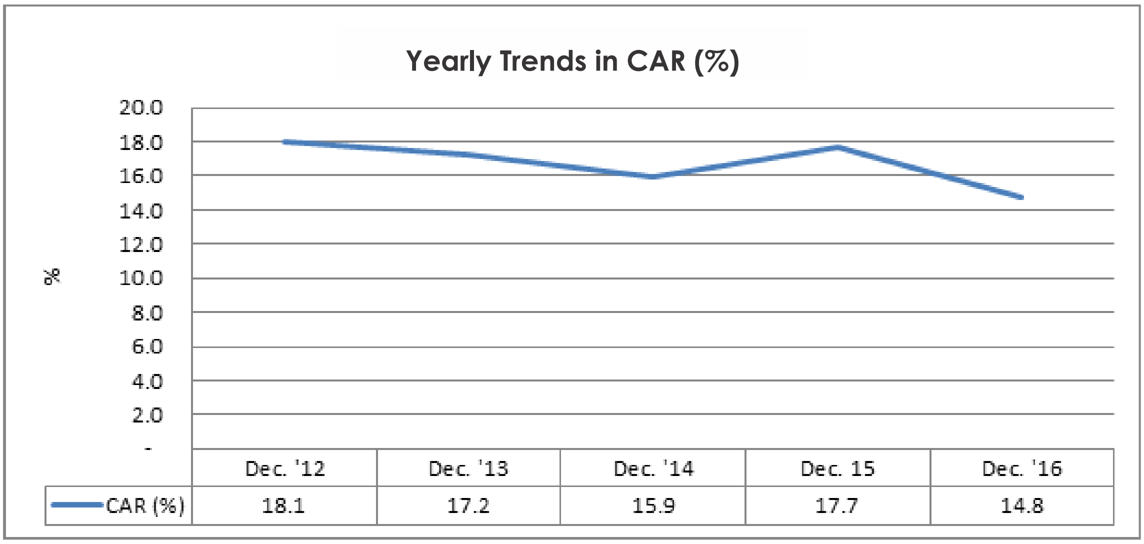
Market Share of the Ten Largest Banks

The market share of the top five and top 10 DMBs in terms of total assets were 53.6 per cent and 77.2 per cent at end-December 2016 compared with 52.6 per cent and 78.1 per cent respectively, at end-December 2015. Their market share in terms of total deposit liabilities were 54.6 per cent and 78.2 per cent at end-December 2016, compared with 53.3 per cent and 79.2 per cent at end-December 2015. They controlled 54.0 per cent and 80.8 per cent of gross credits at end-December 2016, compared with 53.8 per cent and 80.4 per cent, at end-December 2015.

Capital Adequacy Ratio of Banks

The minimum capital adequacy ratio requirement at end-December 2016 remained at 10 per cent and 15 per cents for DMBs with national and international authorization, respectively. At end-December 2016, the industry capital adequacy ratio was 14.8 per cent compared with 17.7 per cent at end-December 2015. The decrease was due largely to the increase in risk weighted assets following the devaluation of the naira and increased loan loss provision as a result of the deterioration in the quality of loans. The average capital adequacy ratios for banks with national and international authorization were 13.9 per cent and 15.2 per cent respectively at end-December 2016.

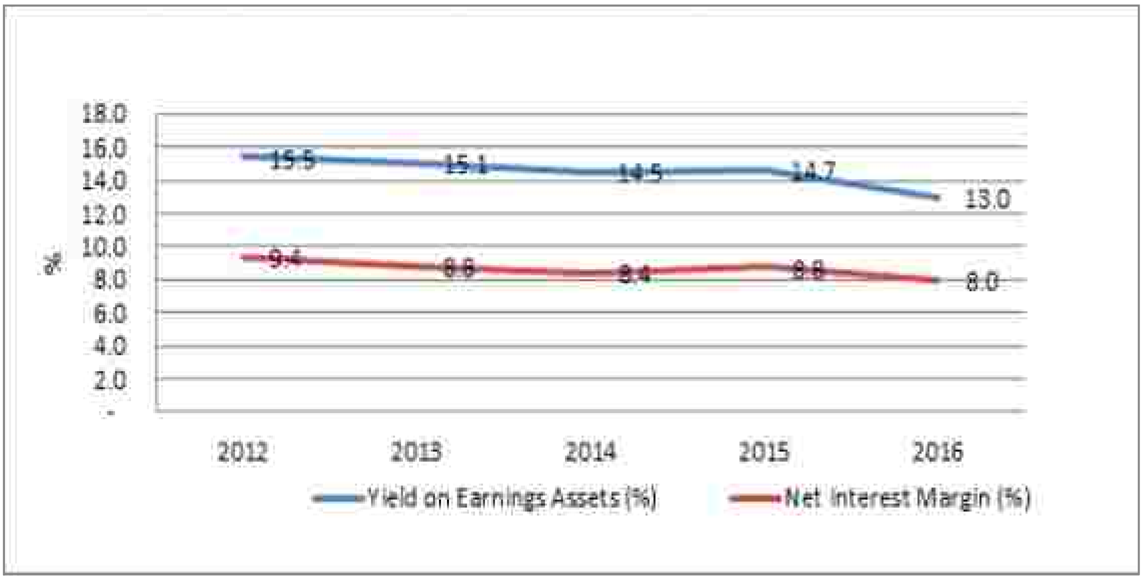
Figure 9: Trend in Industry Capital Adequacy Ratio of DMBs



Efficiency of Operations

The yield on earning assets declined to 13.0 per cent in 2016 from 14.7 per cent in 2015. Operational efficiency, measured by cost to income ratio, deteriorated to 77.9 per cent in 2016 from 74.2 per cent in 2015. Similarly, return on assets and return on equity of the industry declined to 1.5 per cent and 12.6 per cent in 2016 from 2.3 per cent and 18.1 per cent in 2015. The decline in the profitability indicators was largely due to overheads and increased impairment charges on non-performing loans.

Figure 10: Trend in Net Interest Margin and Earnings



4.02 PERFORMANCE TREND OF OTHER FINANCIAL INSTITUTIONS

The aggregate Statement of Financial Position of the OFI sub-sectors, comprising DFIs, PMBs, MFBs, FCs and the NMRC at end-December 2016 showed that total assets increased by 12.3 per cent to ₦2,067.9 billion, from ₦1,841.6 billion at end-December 2015. Similarly, total loans and advances increased by 12.7 per cent to ₦1,216.0 billion at end-December 2016, from ₦1,078.8 billion at end-December 2015. Total deposits also increased by 11.7 per cent to ₦602.2 billion at end-December 2016, from ₦539.2 billion at end-December 2015.

Details of the Statement of Financial Position of the OFI sub-sectors are discussed below:

Microfinance Banks

The total assets of MFBs decreased by ₦6.9 billion (1.9 per cent) to ₦354.1 billion at end-December 2016, from ₦361.0 billion at end-December 2015. The decrease was mainly due to the reduction in placements with banks by 35.0 per cent. However, the net loans and advances, which constituted the largest asset item, increased by ₦22.5 billion (13.4 per cent) to ₦190.3 billion at end-December 2016, from ₦167.8 billion the previous year.

The liability and equity items also recorded decreases in 2016 with the shareholders' funds decreasing by ₦15.6 billion (16.3 per cent) to ₦79.8 billion at end-December 2016, from ₦95.4 billion at end-December 2015. However, deposits, which constituted the largest liability item, increased by ₦11.6 billion (7.2 per cent) to ₦172.5 billion at end-December 2016, from ₦160.8 billion at end-December 2015.

The aggregate Statement of Financial Position of the MFB sub-sector at end-December 2016 and end-December 2015 is shown below:

Table 5: Comparative Aggregate Statement of Financial Position of the MFB Sub-sector

	Dec-16		Dec-15		Variance	Growth Rate
Assets	**₦'000**	**%**	**₦'000**	**%**	**₦'000**	**%**
Cash and Due from Other Banks	36,891,270	10.4	36,937,047	10.2	-45,777	-0.1
Placement with Banks	58,927,094	16.6	90,660,205	25.1	-31,733,111	-35.0
Short Term Investments	19,879,832	5.6	13,219,719	3.7	6,660,113	50.4
Long Term Investments	3,762,727	1.1	5,788,073	1.6	-2,025,346	-35.0
Net Loans and Advances	190,309,397	53.7	167,849,108	46.5	22,460,289	13.4
Other Assets	28,986,610	8.2	28,225,108	7.8	761,502	2.7
Fixed Assets	15,330,522	4.3	18,357,815	5.1	-3,027,293	-16.5
Total Assets	**354,087,452**	**100.0**	**361,037,075**	**100.0**	**-6,949,623**	**-1.9**
Financed By:						
Paid-up Capital	62,892,336	17.8	84,178,257	23.3	-21,285,921	-25.3
Reserves	16,891,518	4.8	11,179,980	3.1	5,711,538	51.1
Shareholders' Funds	**79,783,854**	**22.5**	**95,358,237**	**26.4**	**-15,574,383**	**-16.3**
Long Term Loans	36,933,521	10.4	170,358	0.0	36,763,163	21579.9
Deposits	172,451,239	48.7	160,810,463	44.5	11,640,776	7.2
Takings from Other Banks	3,408,819	1.0	10,072,182	2.8	-6,663,363	-66.2
Other Liabilities	61,510,019	17.4	94,625,835	26.2	-33,115,816	-35.0
Total Liabilities & Equity	**354,087,452**	**100.0**	**361,037,075**	**100.0**	**-6,949,623**	**-1.9**

Figure 11: Microfinance Banks Sub-sector Total Assets

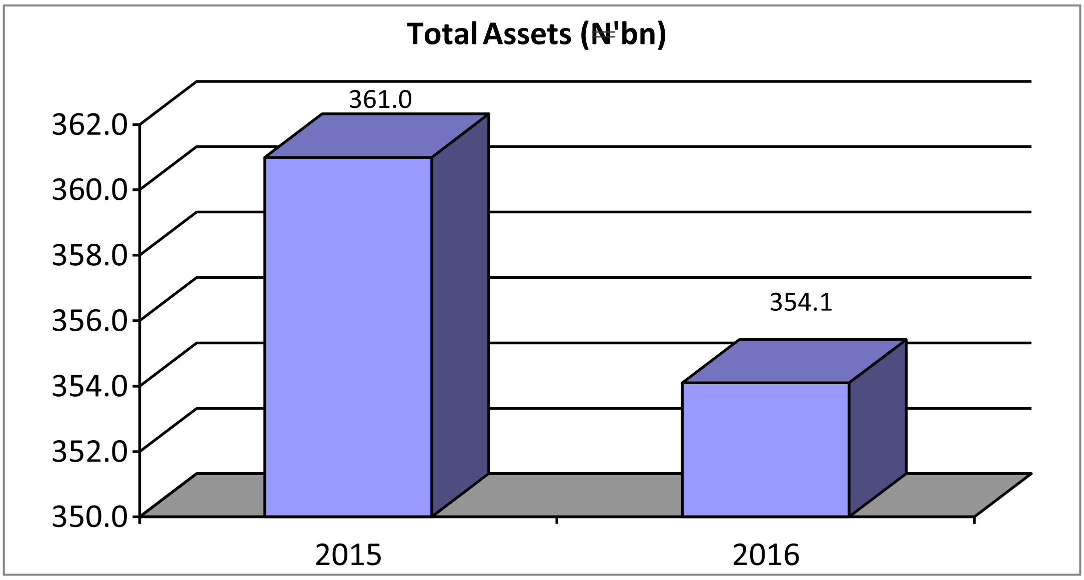
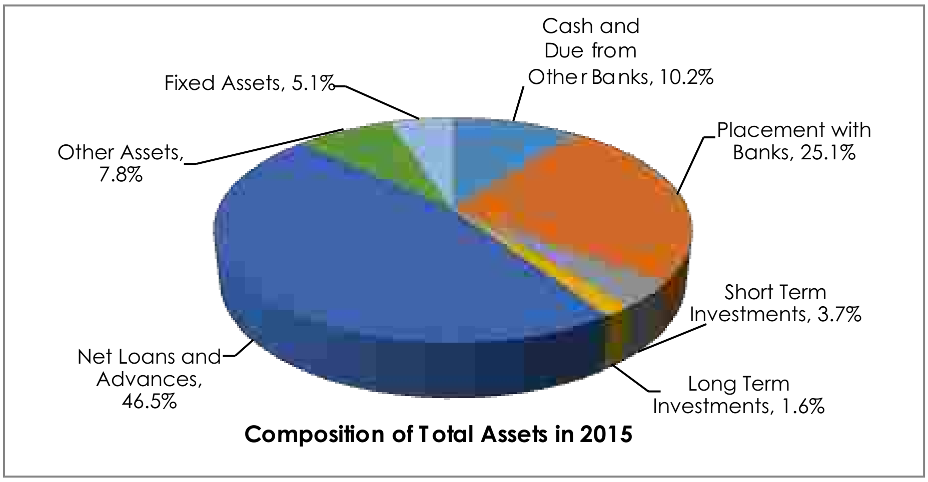


Figure 12: Microfinance Banks Sub-sector Composition of Assets



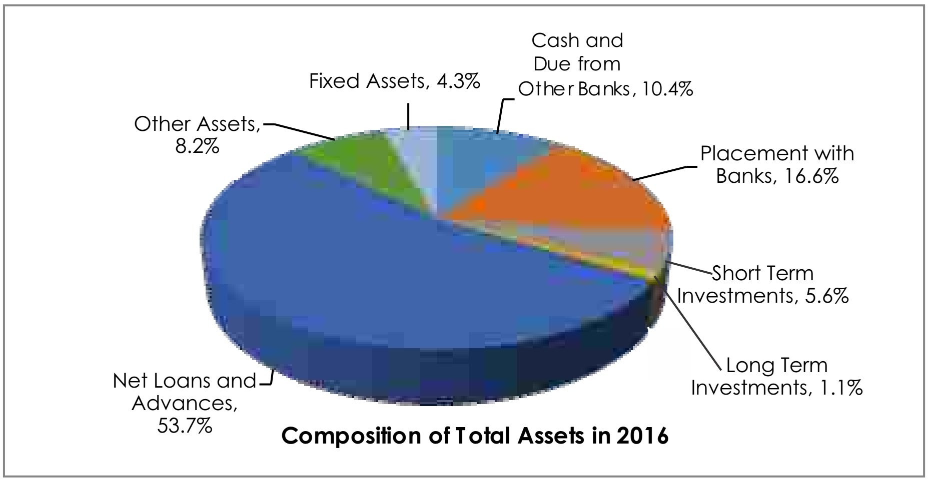
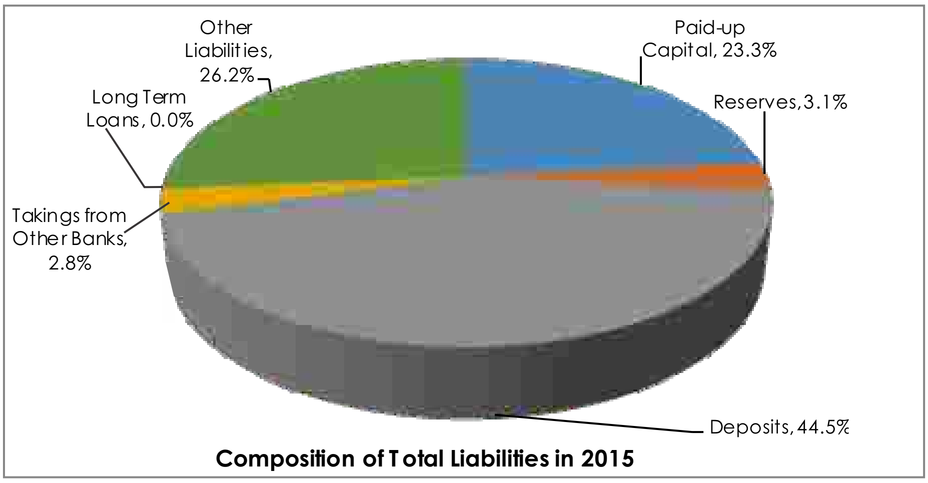
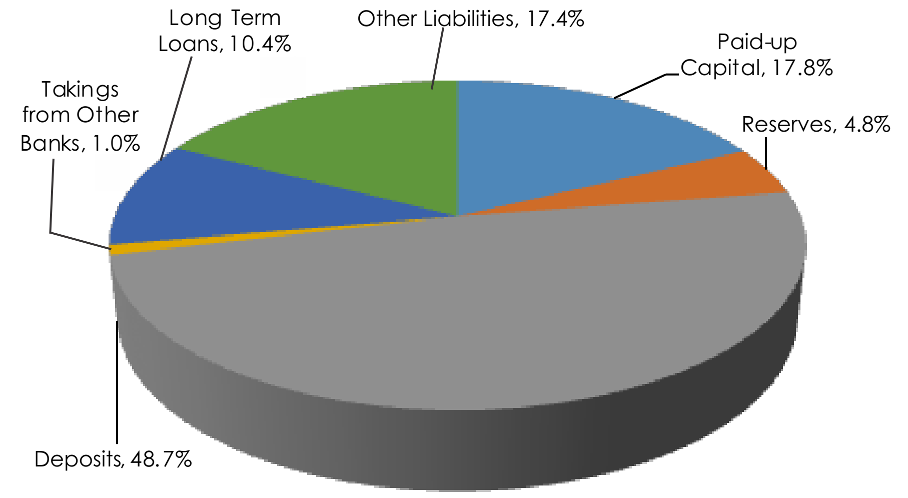


Figure 13: Microfinance Banks Sub-sector Composition of Liabilities





Composition of Total Liabilities in 2016

Primary Mortgage Banks

The total number of licensed PMBs decreased to 34 from 35 at end-December 2016 with the conversion of one to a regional bank. The total assets of the 34 PMBs decreased by ₦6.1 billion (1.6 per cent) to ₦383.7 billion at end-December 2016, from ₦389.7 billion at end-December 2015. Loans and advances, which constituted the largest asset item, also decreased by ₦14.5 billion (8.6 per cent) to ₦154.5 billion at end-December 2016, from ₦169.0 billion at end-December 2015.

Total deposits decreased by ₦5.9 billion (4.9 per cent) to ₦115.8 billion at end-December 2016, from ₦121.7 billion at end-December 2015, largely due to the exit of one operator. Similarly, the shareholders' funds decreased by ₦6.7 billion (4.8 per cent) to ₦132.2 billion at end-December 2016, from ₦138.9 billion the previous year.

The aggregate Statement of Financial Position of the PMB sub-sector at end-December 2016 and end-December 2015 is shown below:

Table 6: Comparative Aggregate Statement of Financial Position of the PMB Sub-sector

	Dec-16		Dec-15		Variance	Growth Rate
Assets	**₦'000**	**%**	**₦'000**	**%**	**₦'000**	**%**
Cash and Due from Banks	66,117,226	17.2	64,696,147	16.6	1,421,079	2.2
Investments	92,279,417	24.1	72,597,395	18.6	19,682,022	27.1
Loans and Advances	154,460,257	40.3	168,953,356	43.4	-14,493,099	-8.6
Other Assets	53,783,353	14.0	66,386,514	17.0	-12,603,161	-19.0
Fixed Assets	17,031,429	4.4	17,093,570	4.4	-62,141	-0.4
Total Assets	**383,671,682**	**100.0**	**389,726,982**	**100.0**	**-6,055,300**	**-1.6**
Financed By:						
Paid-up Capital	103,346,459	26.9	112,406,057	28.8	-9,059,598	-8.1
Reserves	28,833,848	7.5	26,510,806	6.8	2,323,042	8.8
Shareholders' Funds	**132,180,307**	**34.5**	**138,916,863**	**35.6**	**-6,736,556**	**-4.8**
Deposits	115,769,127	30.2	121,691,666	31.2	-5,922,539	-4.9
Placements from Banks	22,630,603	5.9	5,019,807	1.3	17,610,796	350.8
Long Term Loans/NHF	45,034,812	11.7	49,128,053	12.6	-4,093,241	-8.3
Other Liabilities	68,056,833	17.7	74,970,593	19.2	-6,913,760	-9.2
Total Liabilities & Equity	**383,671,682**	**134.5**	**389,726,982**	**100.0**	**-6,055,300**	**-1.6**

Figure 14: Primary Mortgage Banks Sub-sector Total Assets

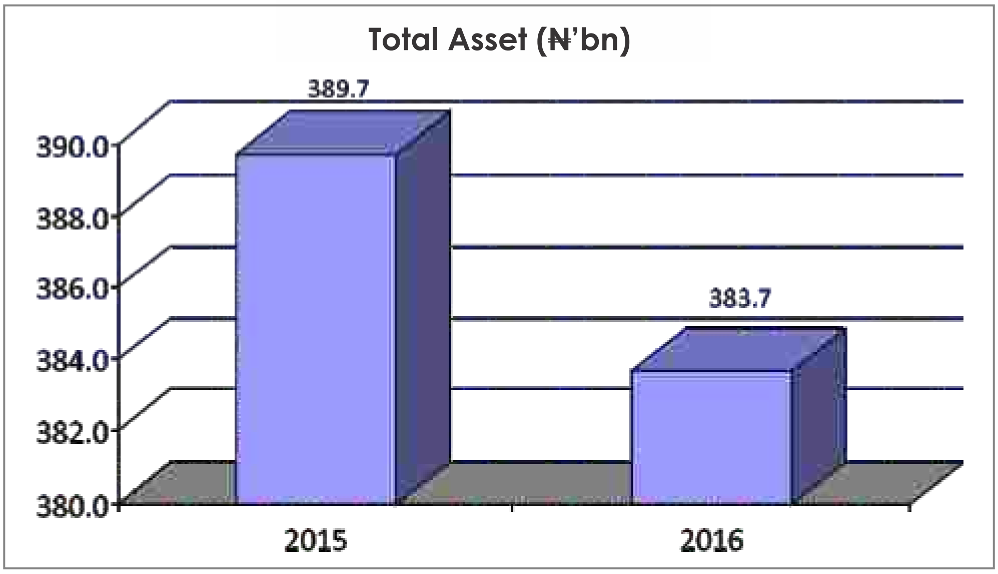
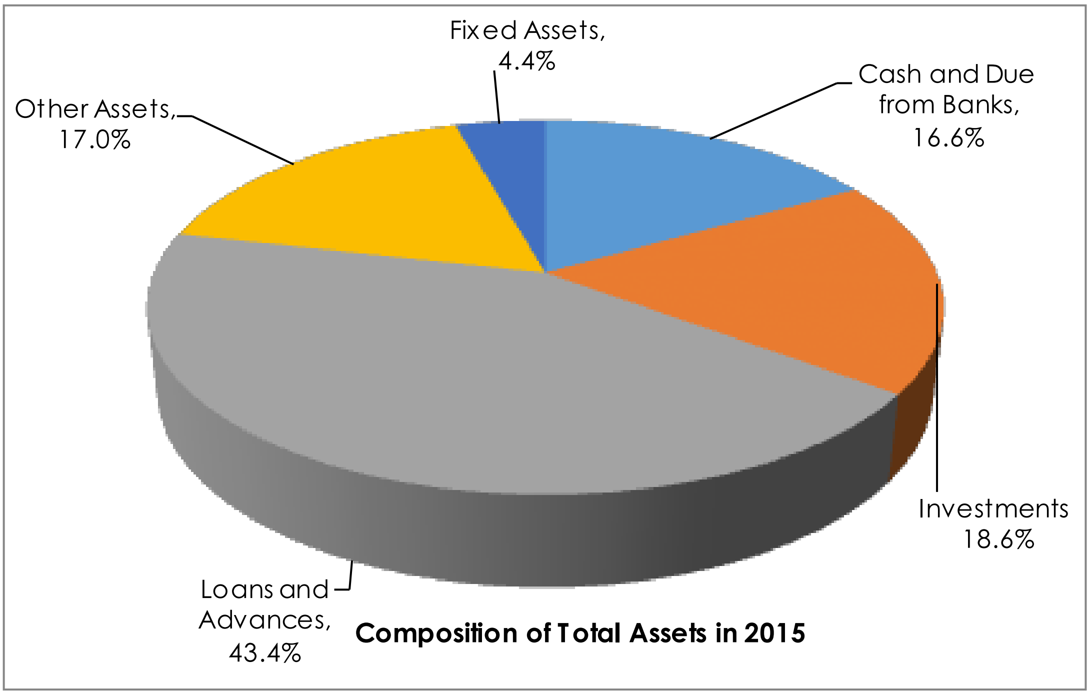


Figure 15: Primary Mortgage Banks Sub-sector Composition of Assets



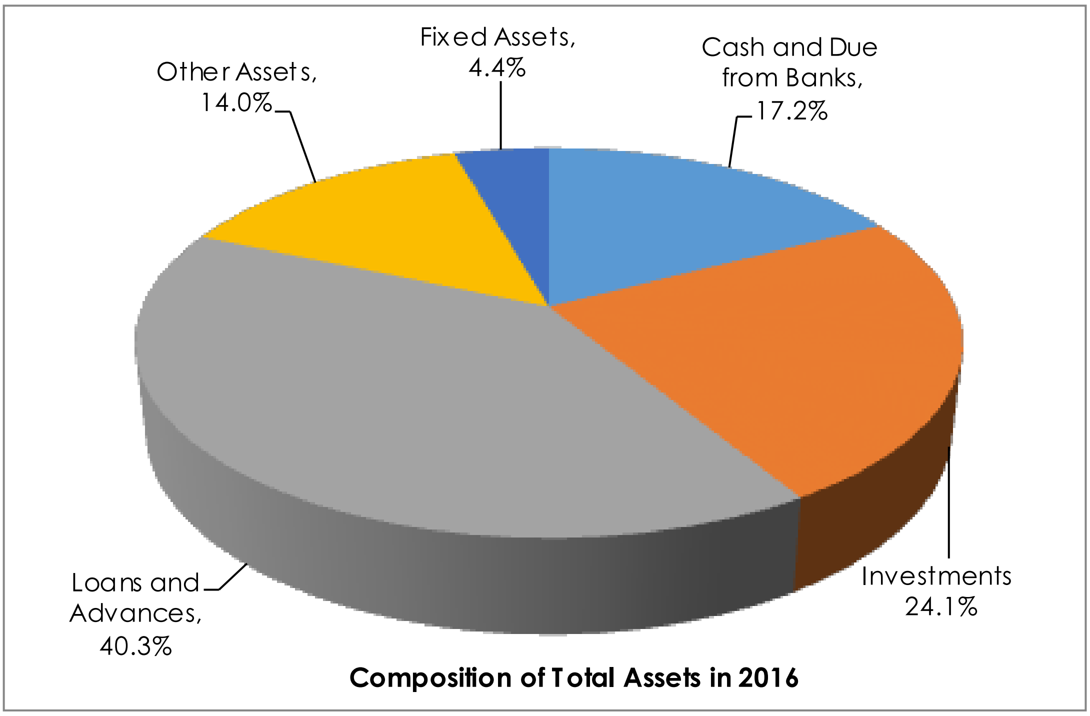
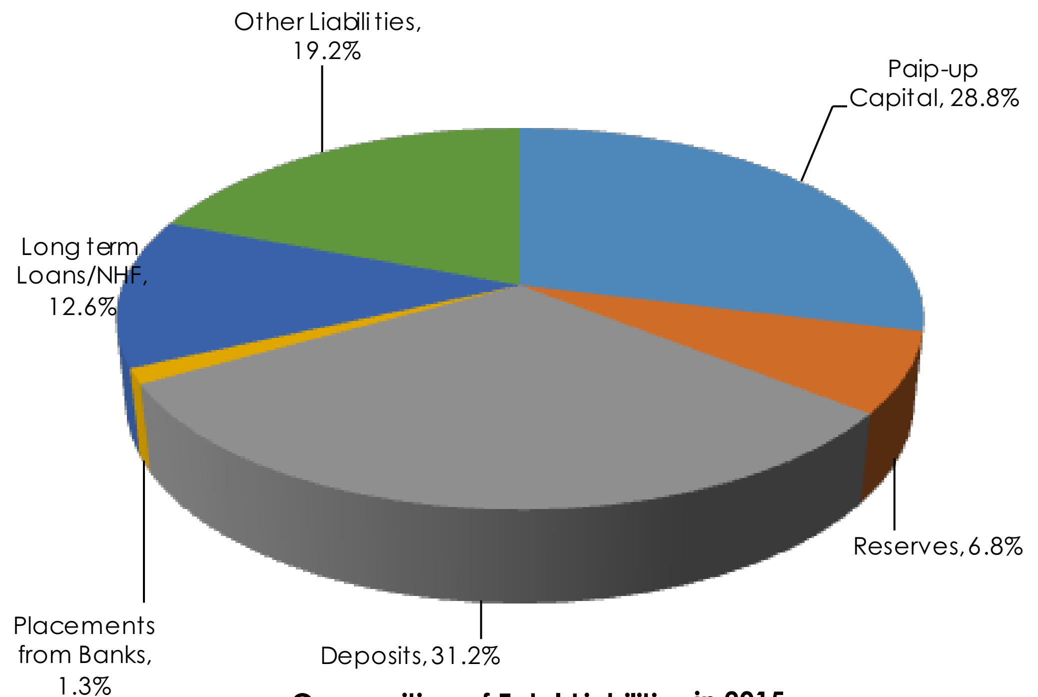
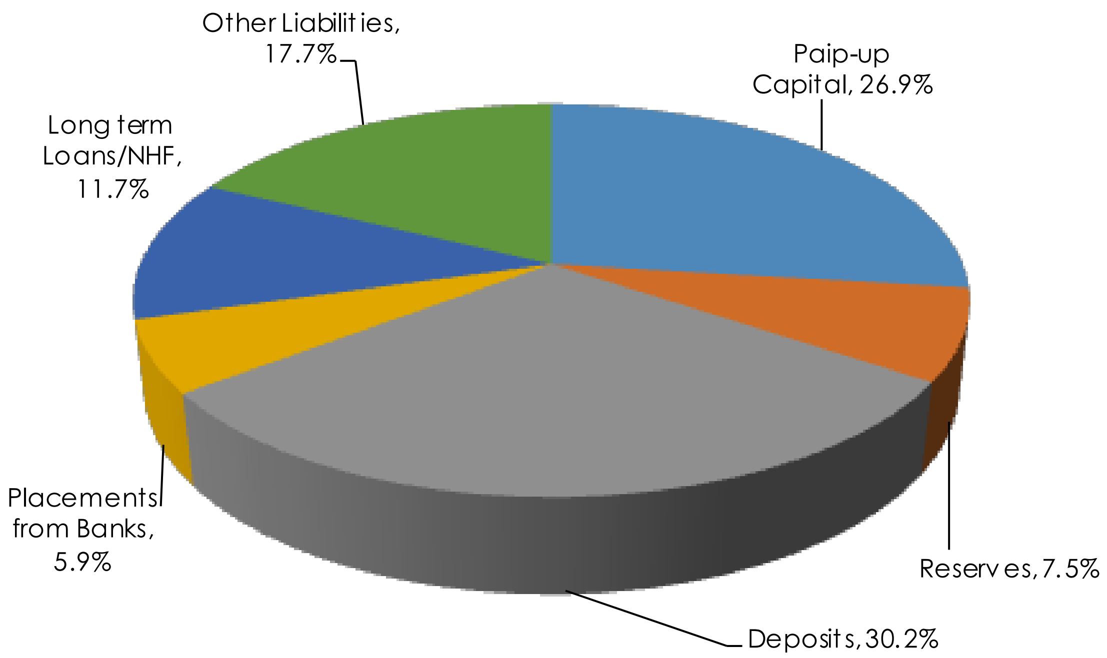


Figure 16: Primary Mortgage Banks Sub-sector Composition of Liabilities



Composition of Total Liabilities in 2015



Composition of Total Liabilities in 2016

Finance Companies

The total assets of FCs decreased by ₦6.8 billion (5.3 per cent) to ₦121.8 billion at end-December 2016, from ₦128.6 billion at end-December 2015. This was mainly due to decreases in investments and loans and advances by ₦3.3 billion (17.7 per cent) and ₦14.4 billion (26.2 per cent) to ₦15.4 billion and ₦40.6 billion at end-December 2016 from ₦18.7 billion and ₦55.0 billion at end-December 2015, respectively.

Similarly, total borrowings of the sub-sector decreased by ₦3.9 billion (5.2 per cent) to ₦71.5 billion at end-December 2016, from ₦75.4 billion the previous year. Shareholders' funds, however, increased by ₦2.8 billion (14.8 per cent) to ₦21.6 billion at end-December 2016, from ₦18.8 billion at end-December, 2015. This was due to injection of additional capital and aggregate profit recorded in the industry.

The aggregate Statement of Financial Position of the FC sub-sector at end-December 2016 and end-December 2015 is shown below:

Table 7: Comparative Aggregate Statement of Financial Position of the FC Sub-sector

	Dec-16		Dec-15		Variance	Growth Rate
Assets	**₦'000**	**%**	**₦'000**	**%**	**₦'000**	**%**
Cash and Due from Banks	4,298,533	3.5	2,798,349	2.2	1,500,184	53.6
Placements	5,772,557	4.7	6,896,590	5.4	-1,124,033	-16.3
Investments	15,396,361	12.6	18,702,292	14.5	-3,305,931	-17.7
Net Loans and Advances	40,578,516	33.3	54,989,590	42.8	-14,411,074	-26.2
Other Assets	41,840,696	34.4	30,869,409	24.0	10,971,287	35.5
Fixed Assets	13,909,042	11.4	14,322,375	11.1	-413,333	-2.9
Total Assets	**121,795,705**	**100.0**	**128,578,605**	**100.0**	**-6,782,900**	**-5.3**
Financed By:						
Paid-up Capital	19,180,431	15.7	17,267,114	13.5	1,913,317	11.1
Reserves	2,426,142	2.0	1,553,017	1.2	873,125	56.2
Shareholders' Funds	**21,606,573**	**17.7**	**18,820,131**	**15.4**	**2,786,442**	14.8
Long-term Loans Liabilities	1,603,509	1.3	1,424,376	1.1	179,133	12.6
Total Borrowings	71,529,988	58.7	75,442,133	57.2	-3,912,145	-5.2
Other Liabilities	27,055,635	22.2	32,891,965	24.3	-5,836,330	-17.7
Total Liabilities & Equity	**121,795,705**	**100.0**	**128,578,605**	**100.0**	**-6,782,900**	-5.3

Figure 17: Finance Companies Sub-sector Total Assets

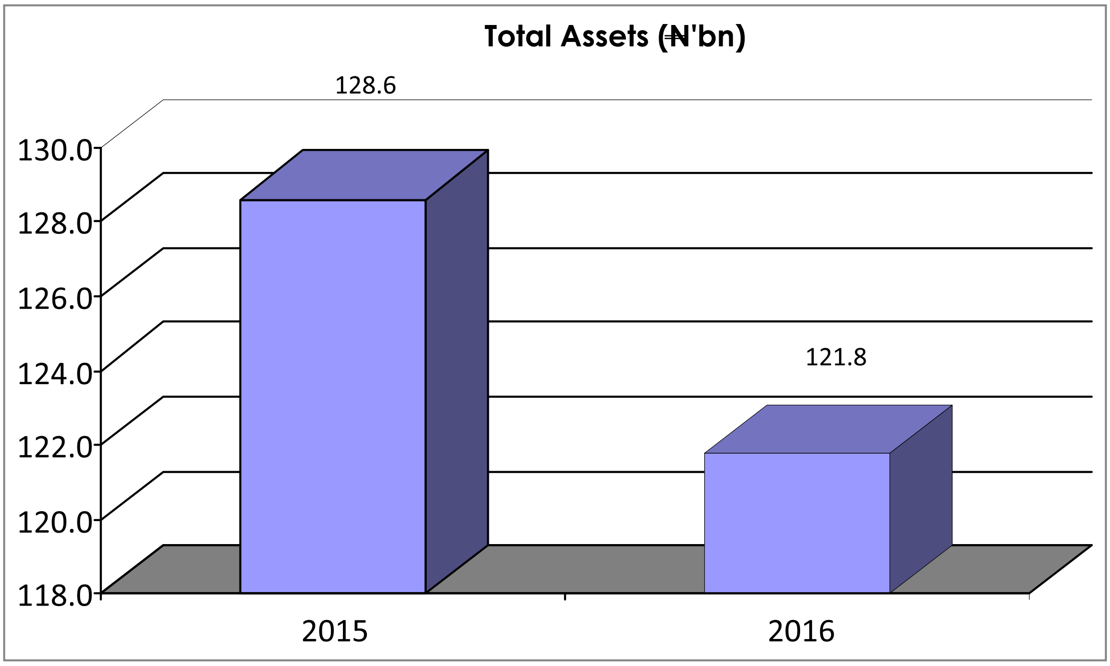
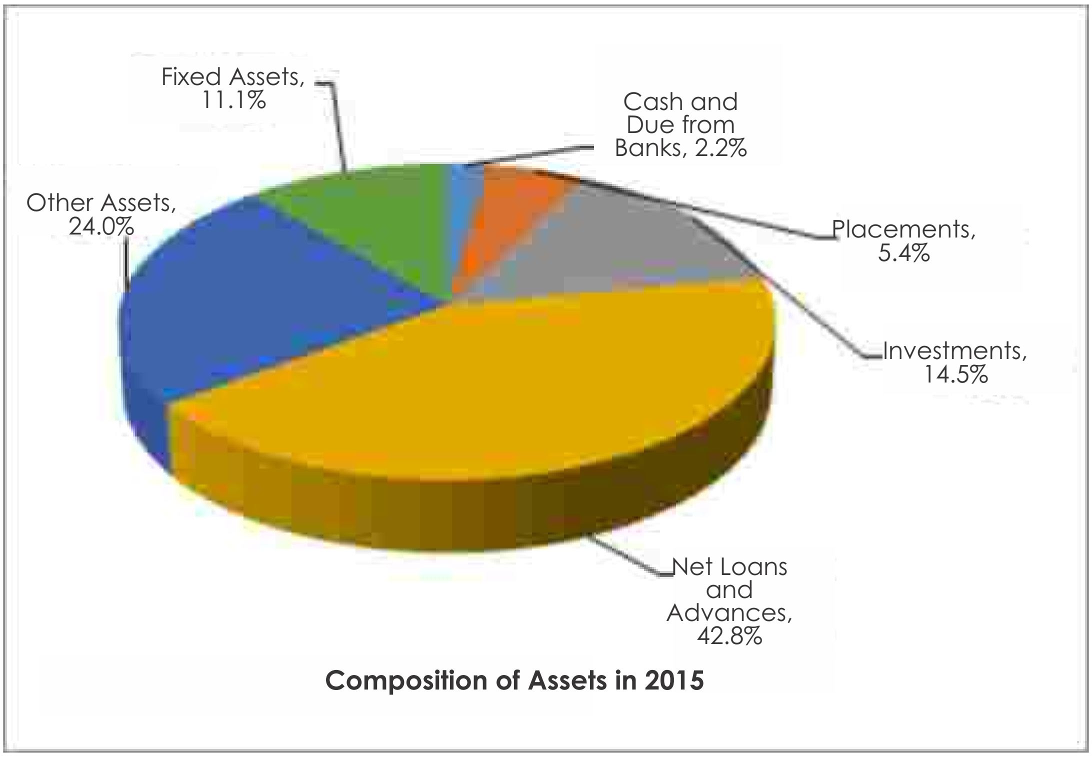


Figure 18: Finance Companies Sub-sector Composition of Assets



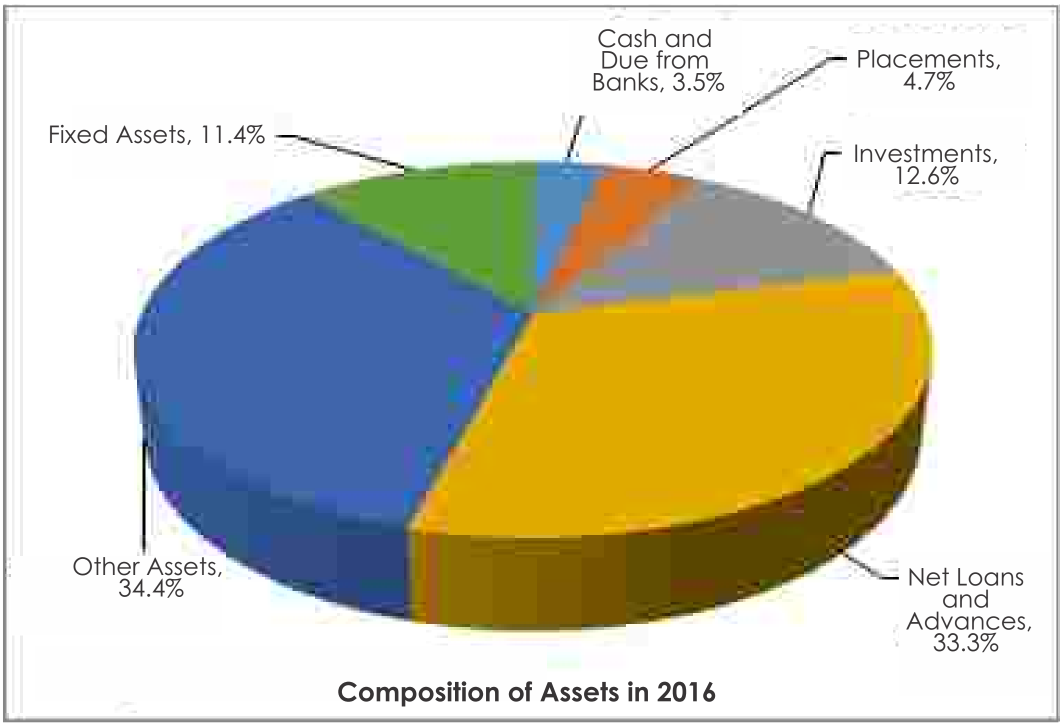
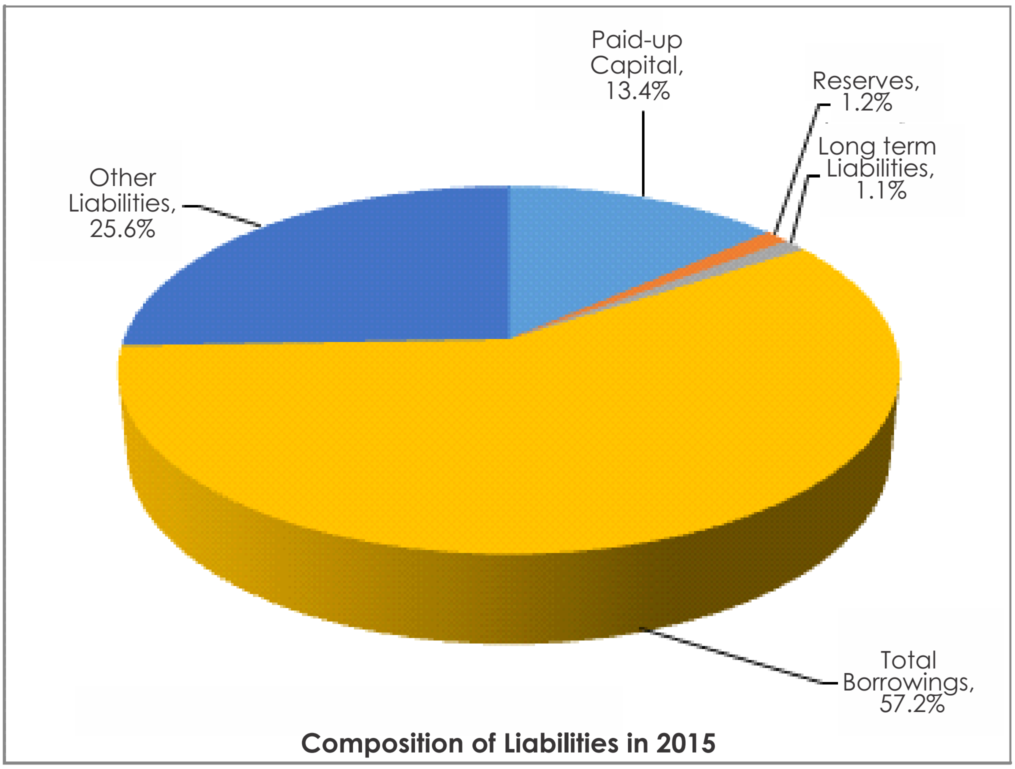
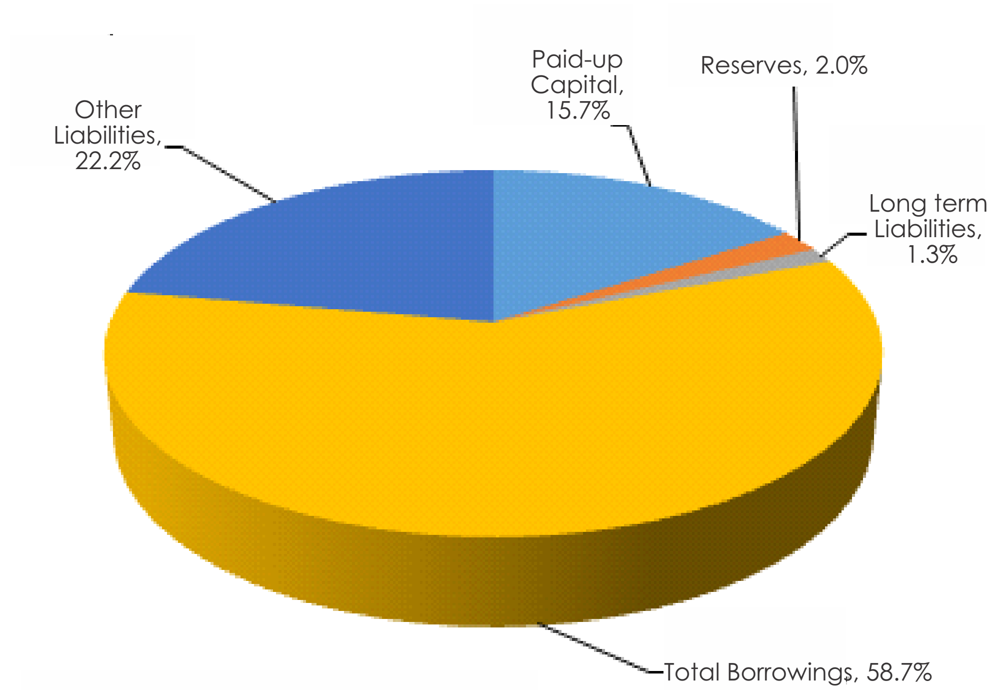


Figure 19: Finance Companies Sub-sector Composition of Liabilities





Composition of Liabilities in 2016

Development Finance Institutions

The total assets of the five DFIs (excluding National Economic Reconstruction Fund in-liquidation) increased by ₦77.8 billion (7.0 per cent) to ₦1,185.7 billion at end-December 2016, from ₦1,107.9 billion at end-December 2015. However, loans and advances decreased marginally by 1.4 per cent to ₦822.6 billion at end-December 2016, from ₦834.0 billion at end-December 2015.

The Aggregate Statement of Financial Position of the DFI sub-sector at end-December 2016 and 2015 is shown overleaf.

Table 8: Comparative Aggregate Statement of Financial Position of the DFI Sub-sector

Assets	Dec-16		Dec-15		Variance	Growth Rate
	₦'000	%	₦'000	%	₦'000	%
Cash and Bank Balances	153,105,037	12.9	116,641,175	10.5	36,463,862	31.3
Placement	96,246,187	8.1	53,350,056	4.8	42,896,131	80.4
Investment	16,267,487	1.4	16,669,194	1.5	-401,707	-2.4
Investment Property	22,917,631	1.9	23,429,220	2.1	-511,589	-2.2
Loans and Advances	822,600,852	69.4	834,036,522	75.3	-11,435,670	-1.4
Other Assets	27,938,277	2.4	14,962,264	1.4	12,976,013	86.7
Fixed Assets	46,581,189	3.9	48,764,864	4.4	-2,183,675	-4.5
Total Assets	**1,185,656,661**	**100.0**	**1,107,853,295**	**100.0**	**77,803,366**	7.0
Financed By:						
Share Capital	232,088,204	19.6	232,612,742	21.0	-524,538	-0.2
Reserves	(24,813,418)	-2.1	(84,313,380)	-7.6	59,499,962	-70.6
Shareholders' Funds	**207,274,786**	**17.5**	**148,299,362**	**13.4**	**58,975,424**	**-8.5**
Deposits	242,489,463	20.5	219,487,829	19.8	23,001,634	10.5
Borrowings	445,654,317	37.6	454,758,300	41.0	-9,103,983	-2.0
Due to Other Banks	68,837,825	5.8	22,636,195	2.0	46,201,630	204.1
Other Liabilities	199,133,679	16.8	230,990,863	20.9	-31,857,184	-13.8
Long-term Liabilities	22,266,592	1.9	31,680,746	2.9	-9,414,154	-29.7
Total Liabilities & Equity	**1,185,656,661**	**100.0**	**1,107,853,295**	**100.0**	**77,803,366**	**7.0**

Figure 20: Development Finance Institutions Sub-sector Total Assets

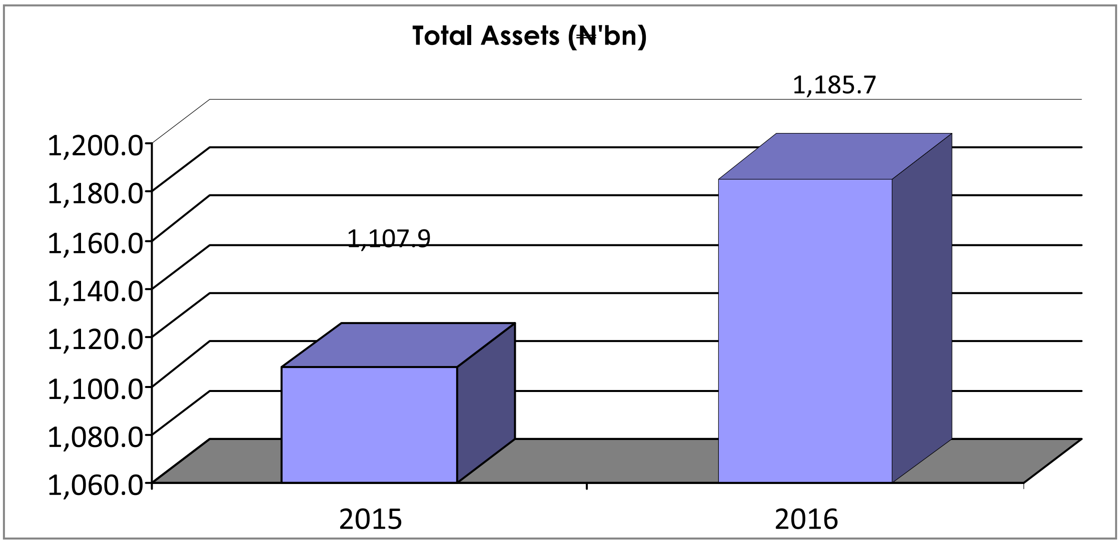
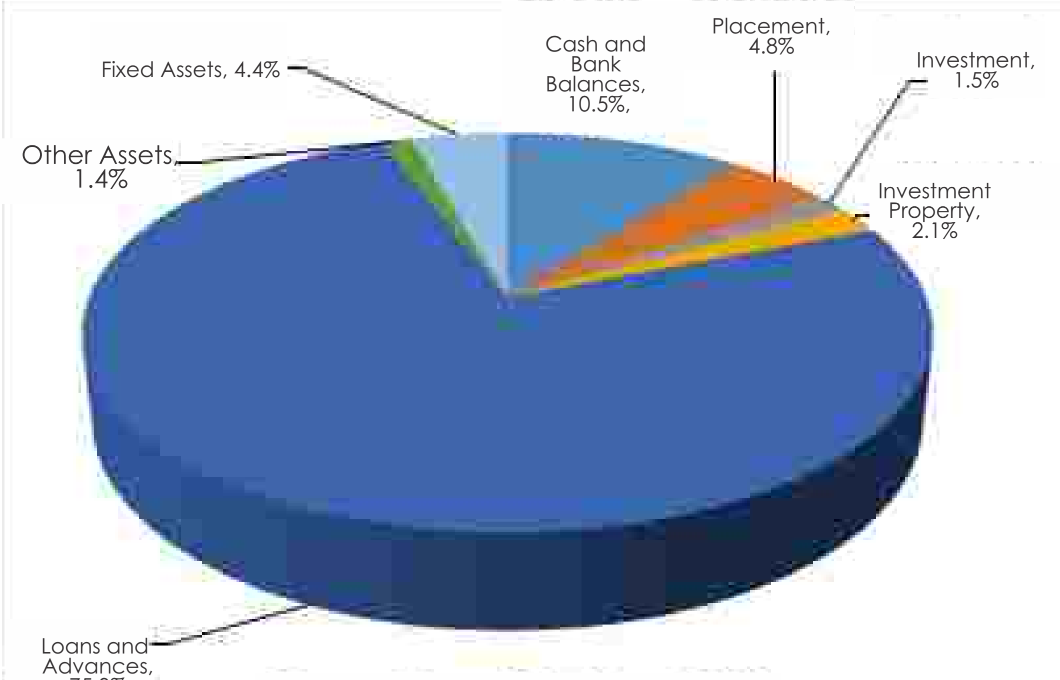
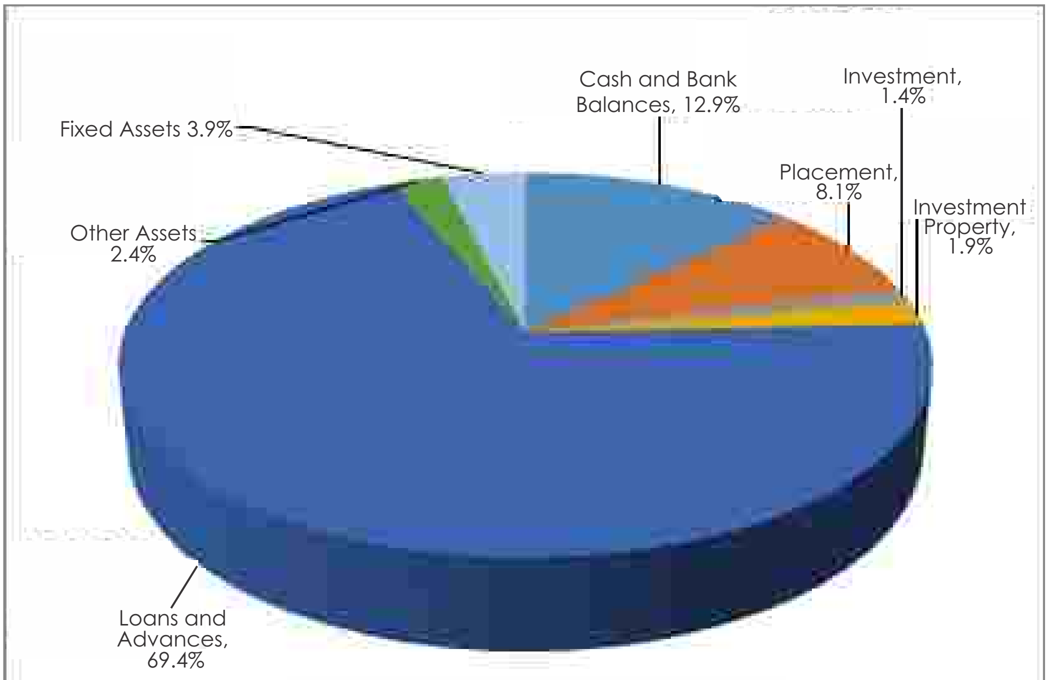


Figure 21: Development Finance Institutions Sub-sector Composition of Assets

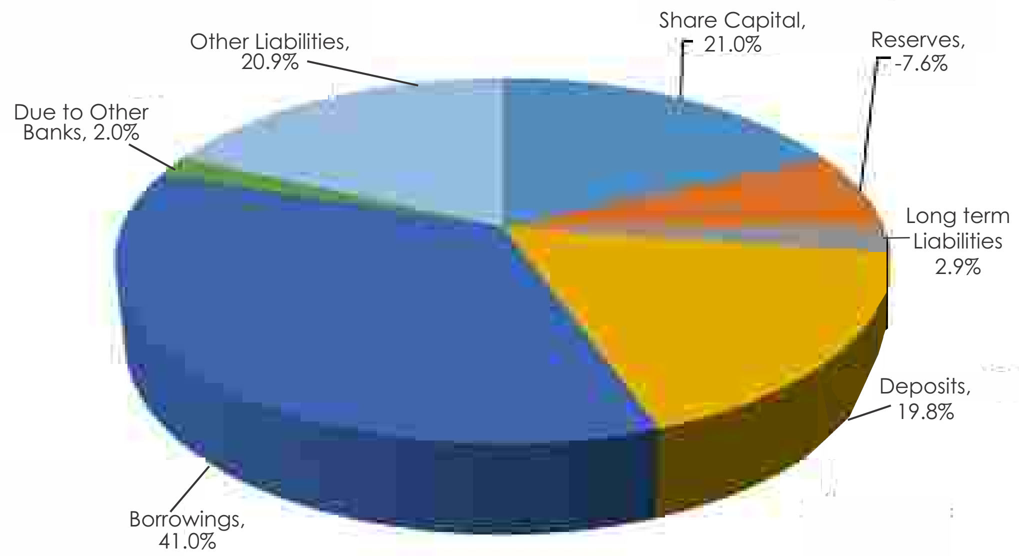


Composition of Total Assets 2015

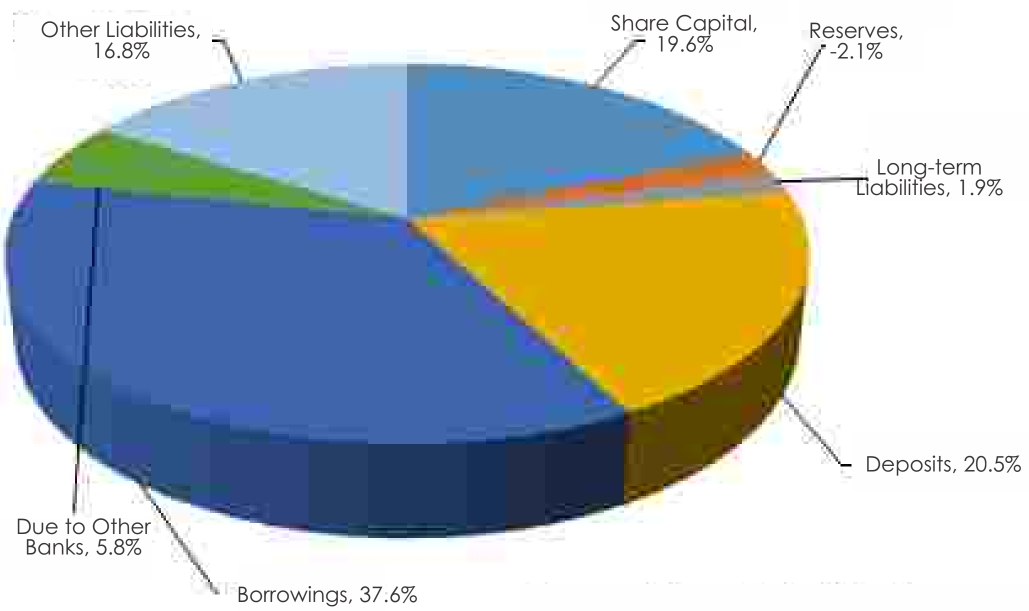


Composition of Total Assets 2016

Figure 22: Development Finance Institutions Sub-sector Composition of Liabilities



Composition of Total Liabilities 2015



Composition of Total Liabilities 2016

Nigeria Mortgage Refinance Company

The total assets of the Nigeria Mortgage Refinance Company (NMRC), which was licensed in 2015, amounted to ₦22.7 billion. The key components of the total assets were cash and bank balances of ₦14.6 billion and refinance mortgages of ₦8.1 billion at end-December 2016.

The Statement of Financial Position of the NMRC at end-December 2016 is shown below:

Table 9: Statement of Financial Position of NMRC

Assets	**Dec-16**	
	₦'000	**%**
Cash and Bank Balances	14,597,464	64.3
Investments	14,507	0.1
Refinanced Mortgages	8,095,020	35.6
Other Assets	333	0.0
Fixed Assets	248	0.0
Total Assets	**22,707,572**	**100.0**
Financed By:		
Share Capital	1,763	0.0
Reserves	7,103	0.0
Shareholders' Funds	**8,866**	**0.0**
Long-term Liabilities	22,697,214	100.0
Other Liabilities	1,492	0.0

CHAPTER 5

CAPACITY BUILDING

5.01 BANKING SUPERVISION DEPARTMENT ANNUAL RETREAT

The Banking Supervision Department (BSD) 2016 Retreat was organised as part of the staff capacity development effort of the CBN Management. The Retreat took place from September 7 - 9, 2016 in Abeokuta, Ogun State. It provided a platform for Examiners to discuss topical issues affecting the supervision of the banking system. The retreat was attended by 240 BSD personnel, the Director, Banking and Payments System Department, some retired Examiners, representatives of other departments, CBN branches and the NDIC.

The Director, Banking Supervision Department, Mrs. Tokunbo Martins, set the tone in her welcome address, by emphasising the significance of the theme of the retreat, *Basel II/III Implementation in Nigeria: Challenges and the Journey So Far*, which is predicated on the backdrop of the banking reforms aimed at enhancing the resilience of the financial system. She enjoined examiners to improve on their job performance towards attaining the department's mandates.

In his keynote address, the guest of honour, Mr. Adebayo A. Adelabu, Deputy Governor, Corporate Services, who represented the Deputy Governor, Financial System Stability, stressed the role of banking supervision in financial stability through ensuring robust regulatory framework as well as timely detection and effective resolution of problems in the banking system. He emphasised the need to update the Supervisory Framework for Banks and Other Financial Institutions in Nigeria (RBS Framework), challenging Examiners to engage in continuous self-improvement to keep pace with developments in the financial markets.

The sub-themes of the Retreat were:

a. Etiquette: The Bank Examiner and Ethical & Professional Conduct;
b. Emerging Risks in AML/CFT: Supervisory Concerns and the Way Forward; and
c. The Basics of Banking Supervision: Off-site and On-site Perspectives in a Risk Based Environment.

Highlights of the six papers presented at the Retreat are as follows:

I. Paper 1 - *Basel II/III Implementation in Nigeria: The Challenges & the Journey So Far* was presented by Thierry Mbimi, Partner & Head, Financial Risk Management, KPMG Advisory Services. The discussion, which covered the challenges of implementing Basel II/III, commenced with an overview of the objectives of the Basel framework and the guidance it provided for the management of risk and capital, to strengthen the stability of the global banking system. The presenter noted the following implementation challenges in Nigeria:

a. Dichotomy in the capital adequacy threshold for internationally active banks not being risk sensitive;

b. Non availability of licensed External Credit Assessment Institutions (ECAI) and the use of the ratings in capital charge;

c. Lack of rules-based methodology for Pillar 2 capital charge; stress testing in ICAAP; ILAAP; LCR; NSFR and Leverage ratio roadmap;

d. Implementation of Basel II/III beyond CAR computation to encourage voluntary adoption of sound risk management principles;

e. Lack of a calibrated LGD for Nigerian banks; and

f. Absence of a roadmap for the use of internal models.

Other challenges identified were: capacity building for examiners, lack of 'honest disagreement' culture necessary for imbibing risk management/governance practices and lack of information integrity in banks.

He advised examiners to be conversant with recent developments, especially the consultative documents on operational risk (Standardized Measurement Approach), credit risk (restriction on the use of internal models for capital requirement calculation), Interest Rate Risk in the Banking Book (IRRBB) and prudential treatment of problem assets.

ii. Papers 2 and 3, on *Etiquette: The Bank Examiner and Ethical & Professional Conduct*, were presented by Mrs. F.M. Fadelu and Mr. S.E. Nwadiuko. The papers covered the concepts of ethics and professionalism, expectations, benefits and consequences of bank examiners' ethical conduct. The discussants noted the following ethical and professional expectations from bank examiners - specialized knowledge, skill, independence, team work and consultations amongst others. They emphasized the need for trust, integrity and accountability. They also enjoined them to maintain strong positive compliance culture by strictly adhering to the CBN Code of Conduct for Examiners, its policies and respect all applicable laws and regulations.

iii. Paper 4 - *Emerging Risks in AML/CFT: Supervisory Concerns and the Way Forward* was presented by Dr. A. C. Okezie. The presenter reviewed the FATF's recommendations, which called on countries, financial institutions as well as designated non-financial businesses and professions, to identify, assess and understand the ML/FT risks they face and to undertake measures to manage and mitigate the risks institutional and country levels.

He called on regulatory authorities to accord the fight against ML/FT necessary priority to reduce the negative consequences on the integrity and stability of the financial system and the economy. He noted that the efforts to improve the enforcement of AML/CFT regulations were crucial, in view of the upcoming mutual evaluation exercise and the consideration of Nigeria's pending application to become a member of FATF.

iv. Paper 5 - *The Basics of Banking Supervision: Off-site Perspectives in a Risk Based Environment* was presented by Mr. K. O. Balogun. He reminded Examiners that the adoption of RBS was to ensure adequate focus on areas of high risk, early warning signals, optimal utilisation of scarce resources and proactivity, amongst others. He noted that off-site supervision complemented the RBS process in the areas of continuous update, detection of high risk characteristics or emerging financial problems, and monitoring of industry performance. He opined that the effectiveness of off-site supervisory activities depended on the capacity of the supervisor, supervisory infrastructure/tools, data availability, timeliness, integrity and governance, among others.

v. Paper 6 - *On-Site Perspective in a Risk Based Environment* was presented by Chief O. K. Ibedu. He stated that the RBS framework of 2009 documented the methodology for the identification of potential risks in banks and the assessment of the financial and operational factors needed to mitigate the risks. He reminded Examiners that the RBS process starts with pre-examination planning, which includes the preparation of Knowledge of Business and the initial Risk Assessment Summary (RAS), before the field work. The field work involves the assessment of the risks inherent in an institution's significant activities and the effectiveness of the risk management control functions. Thereafter, examiners produce the final RAS Report for the CBN Management and issue the Supervisory Letter to the institution's Management.

Other notable events at the Retreat included recognition of outstanding members of staff of the department, novelty match between Lagos and Abuja examiners, a visit to the Olumo Rock, social get together/Special Gala Night and appreciation of the contributions of the Retired Examiners.

The closing ceremony was graced by the Governor of the Central Bank of Nigeria, Mr. Godwin Emefiele (CON), who was accompanied by the Director, Governor's Department, Mr. O. A. Olori. The Governor stated that Management recognized the hard work and dedication of examiners and promised to address all outstanding needs that would enhance their effectiveness.

The 2016 BSD Retreat recommended, among others, the:

a. Enhancement of AML/CFT enforcement to sanction not only financial institutions but also culpable individuals;

b. Adoption of the recent amendments to the Basel guidelines for the purpose of NSFR, LCR, leverage ratio and ILAAP;

c. Enforcement of prescribed limits on insider related credits by deducting the excess above the regulatory limit in the computation of capital adequacy ratio;

d. Integration of IFRS 9 and Basel II/III into a guideline for internal models;

e. Need for examiners to embrace self-development;

f. Enhancement of risk management capacity and culture through intelligent interrogation of banks' processes and procedures;

g. Issuance of a comprehensive guideline on developing Recovery and Resolution Plan by D-SIBs;

h. Conduct of quantitative impact study (in collaboration with KPMG) to calibrate regulatory LGD for Nigerian Banks; and

i. Sanctioning of members of staff that contravene the code of conduct for CBN Examiners, in order to maintain the standard of supervision.

The BSD 2016 Retreat was memorable as it provided opportunity for examiners to exchange ideas on contemporary supervisory issues with a view to enhancing the supervisory processes in the years ahead.

5.02 RETREAT OF OTHER FINANCIAL INSTITUTIONS SUPERVISION DEPARTMENT

The Other Financial Institutions Supervision Department (OFISD) held its 2016 retreat in Kaduna from November 3 - 5, 2016. The theme of the Retreat was, "*Repositioning the OFI Sub-Sector for Sustainable Economic Development: the Role of Supervision*". The retreat afforded the department the opportunity to deliberate on its processes, achievements, challenges and strategies for improving on the delivery of its mandates.

The Director, OFISD, Mr. Ahmad Abdullahi, in his welcome address expressed expectations that the theme of the Retreat would spur deliberations on the strategic importance of the OFI sub-sector in promoting financial inclusion, poverty alleviation and, social and economic empowerment.

In his keynote address, the Deputy Governor (Financial System Stability), who was represented by the Deputy Governor (Corporate Services), highlighted the need for retooling and reinventing the department, in view of the challenges facing the OFI sub-sector and the critical role expected of the department in contributing to the economic recovery effort.

The objectives of the Retreat included: identifying measures for repositioning the OFIs sub-sector for sustainable development; identifying problems and prospects of the sub-sector; creating an appropriate template for AML/CFT compliance; and proposing alternative options for the effective supervision of relatively small OFIs.

Resource persons drawn from the CBN, the OFI sub-sector and the academia presented a total of eight papers. In the first paper on *Repositioning the OFI sub-sector for Sustainable Economic Development,* Dr. Emeka Osuji, a senior fellow at the School of Management and Social Sciences, Pan-Atlantic University, Lagos, advised on the need for the CBN to create new institutions and instruments to strengthen the financial system. He noted that a vibrant OFI sub-sector was imperative in achieving the financial inclusion objective. He concluded that there was need for regulatory support to broaden access to finance by Micro, Small and Medium Enterprises (MSMEs).

Ms. Bunmi Lawson, Managing Director, Accion Microfinance Bank, presented the second paper titled, *Ten years of Microfinance Banking in Nigeria: Problems and Prospects*. She traced the history of microfinance banking in Nigeria to the launch of the microfinance policy framework on December 15, 2005. She enumerated some of the challenges facing the sub-sector to include weak asset base, economic uncertainties, infrastructural deficiencies and undue competition rather than cooperation from DMBs. She identified the prospects of microfinance banking to include huge market size and a large pool of quality staff.

The third paper, titled *Sustainable Development Finance Institutions in Nigeria* was delivered by Professor Danbala Danju, Managing Director of the Bank of Agriculture. He opined that while DFIs had been successful in some emerging economies like Singapore, South-Korea, China, India and Brazil, they have performed below expectation in Africa. He attributed their unsatisfactory performance to government intervention and control, limited access to long term funds, narrow mandates, lack of independence, and weak capital structure. He enumerated the imperatives for the sustainable growth of DFIs to include strategic goal-setting, adoption of performance management systems and increased developmental roles to nurture targeted sectors.

Dr. Femi Johnson, President of the Mortgage Bankers Association of Nigeria (MBAN) presented the fourth paper, which centred on *Housing Finance in Nigeria: Panacea for Economic Development*. He listed the benefits of creating adequate housing stock in an economy to include boosting the economy through job creation, fostering communal and national cohesion, and improving national income through the multiplier effect of housing related expenditure on items like furniture, painting and so on. He grouped the major challenges of mortgage finance under regulatory, normative and cultural/cognitive constraints, stressing that the constraints were the reasons for the less than 1 per cent contribution of the mortgage sector to the nation's GDP. He recommended strengthening of the National Housing Fund Scheme and FMBN, encouraging new building technologies and enacting foreclosure laws.

The remaining four papers, which were presented by internal resource persons, related to the department's work processes as summarised below:

a. A paper on *Risk Based Supervision for Small Financial Institutions* examined the cost of conducting full-fledged risk based examination of small entities and recommended carrying out a cost-benefit analysis before applying the methodology on institutions with total assets below ₦30 million, positing that less supervisory resources should be channelled to such institutions in order to pay greater attention to large OFIs.

b. Another paper, which was on the *Imperatives of AML/CFT compliance by OFIs* examined the legal and regulatory framework in Nigeria, stressing the role of board and senior management in the implementation of the recommendations of the FATF. It espoused the CBN strategy aimed at improving Nigeria's ranking with FATF.

c. A paper on *Etiquette: The Bank Examiner and Ethical & Professional Conduct* focused on the imperative for bank examiners to demonstrate high level of ethical and professional conduct in the discharge of their duties. It emphasized the risks and costs associated with unethical behaviour, not only in monetary terms but also in non-monetary terms.

d. The last paper, which centred on the *Adoption of IT Solutions,* discussed the role of IT as a strategic enabler in achieving efficiency and effectiveness in OFISD processes and operations.

At the end of the retreat, participants issued a communiqué, which among other issues, recommended that emphasis should be placed on self-regulation; provision of cheap long term funds by Government and, matching funds and hedging of foreign loans from multilateral organizations to provide cheap mortgages. Other recommendations included that the CBN should facilitate the creation of long-term funding vehicles to provide assistance in times of stress; OFIs should be incentivised to lend to the real sector through lower interest rates; and the Federal Government should amend the Land Use Act to make land titling easier.

The retreat provided an opportunity to the participants to review their processes, learn, and exchange ideas in an informal setting.

5.03 CONSUMER PROTECTION DEPARTMENT RETREAT

The 2016 retreat of the Consumer Protection Department (CPD) was held in Kaduna from February 3-4, 2017 with the theme *"Implementation of the Consumer Protection Framework: Enhancing Consumer Confidence in the Financial System"*. The retreat provided a platform for stakeholders' discussions on effective implementation of the Consumer Protection Framework (CPF), developed by the Bank.

In his opening remarks, the Branch Controller, CBN Kaduna, Mr. Mohammed I. Gusau represented by Mr. B. I. Abba stated that the increased focus on consumer protection had necessitated the deployment of various consumer protection regulations. He urged participants to develop strategies that would engender the effective implementation of those regulations.

The Director, CPD, Mrs. Umma A. Dutse welcomed participants to the retreat and traced the increased attention to consumer protection to the global financial crisis. Drawing parallels from other jurisdictions, she stated that regulators were consistently developing and implementing regulations to strengthen their consumer protection oversight. She therefore, urged participants to use the opportunity of the retreat to proffer suggestions aimed at developing and refining strategies that would enhance the achievement of the objectives in the CPF.

In his keynote address, the Deputy Governor, Financial System Stability, Dr. Okwu Joseph Nnanna, (represented by the Director, Banking Supervision Department, Mr. Ahmad Abdullahi), commended the department for the development of the CPF and urged it to continuously engage stakeholders in its activities. He advised on the need to demonstrate responsible business conduct in order to earn the trust of stakeholders.

Papers Presented

Delivering the lead paper titled, "Effective Implementation of the Consumer Protection Framework" Mr. Wole Adelokun and Miss Ngozi Chidozie of KPMG Professional Services, averred that, while the development of the CPF was important, the implementation of the framework was more important. The paper reviewed the consumer protection regimes of three countries, namely, the United Kingdom, Malaysia and Uganda, highlighting learning points and challenges. The presenters identified three steps necessary for the implementation of the CPF in Nigeria as follows:

a. Phased approach, which involved the prioritization of the development and issuance of guidelines regarding the nine principles in the framework;

b. Policy roll out, which dealt with the development and issuance of guidelines; and

c. Establishment of critical implementation levers, which related to critical success factors including people, technology and strategies.

In conclusion, the presenters stressed the importance of a robust implementation strategy in achieving the objectives of the framework.

In his paper "*The Nexus between Prudential Regulation and Consumer Protection*", Mr. Chris Chukwu of Banksys Consulting, noted that there was no conflict between prudential regulation and consumer protection as the two were complementary. He stated that, as markets evolved, there was a need to review consumer protection regulations to align with changing trends to prevent market failure as witnessed during the global financial crisis. In this regard, he called for the speedy establishment of the Office of the National Financial Ombudsman to address consumer complaints. He also emphasized the need for better coordination between prudential supervisors and consumer protectors in the banking industry.

Mr. Segun Olukoya of Nextzon Consulting in a paper titled, "*Financial Consumer Protection in Nigeria: Reflections, Challenges and Prospects*", stated that there is a universal consensus on consumer protection representing an important pillar of financial system stability. He stressed the need to identify and mitigate two types of risks as follows:

a. Conduct risk, which is the risk financial institutions pose to their customers as a result of their relationships with them; and

b. Consumer risk, which is the likelihood that financial institutions would not treat consumers fairly.

In conclusion, he advocated continuous consultation and collaboration among stakeholders in the consumer protection ecosystem, which should be driven by the regulators.

In his paper "*Enhancing Consumer Confidence through a Credible, Reliable and Efficient Payments System in Nigeria*", Mr. Dipo Fatokun, Director, Banking and Payments

System Department, CBN, stated that the payments system was the most frequently used financial service by customers and had a great impact on consumer confidence. He emphasized the need for the alignment of the strategic objectives of the payments system to consumer confidence.

Mr. I. U. Hassan of the Consumer Protection Department of the CBN, in his paper titled, *"Challenges of Enforcing Consumer Protection Regulations in the Nigerian Banking Sector",* asserted that various factors, particularly low financial literacy among consumers and poor consumer protection culture in financial institutions, constituted challenges to effective enforcement of consumer protection regulations. He affirmed that enhanced capacity building and continuous stakeholder engagement were crucial to addressing these challenges.

In his paper, *"The Use of Technology for an Efficient Consumer Complaints Management"*, Mr. T. Y. Ahmed of the Consumer Protection Department of the CBN, observed that technology had become an indispensable tool in contemporary complaints management. He therefore, stressed the importance of an appropriate technological framework, with emphasis on capacity building, for effective management of consumer complaints.

Other papers presented at the retreat were *"Leveraging IT Solutions Towards Effective Consumer Protection"* by Mrs. Iyabo M. Adeleke-Adedeji, Deputy Director, Information Technology Department, CBN; *"Challenges of Funding Financial Education in Nigeria"* by Mr. K. Kasim, CPD, CBN; *"Healthy Lifestyle"* by Dr. Ebele I. Mgbor, Medical Services Department, CBN; and *"Security Awareness"* by Mr. Mohammed N. Atiku, Security Services Department, CBN.

Communiqué

A communiqué was issued at the end of the retreat with the following recommendations:

a. Setting up an implementation committee to develop a detailed plan for the implementation of the framework;

b. Equipping the members of staff of CPD with requisite competencies to meet the implementation challenges;

c. Leveraging on social media to disseminate financial literacy modules;

d. Building stronger collaboration with relevant stakeholders to address e-payment technology risks;

e. Reviewing the current complaints management processes for greater efficiency;

f. Developing and implementing a sustainable plan for funding financial education in Nigeria; and

g. Increasing the CBN's engagement with relevant authorities to fast-track the passage of the Financial Ombudsman Bill.

The retreat provided participants a platform to discuss consumer protection issues with emphasis on the implementation of the CPF. It is expected that the lessons from the presentations and the engagement with stakeholders would contribute to the effective implementation of the framework.

5.04 CAPACITY BUILDING FOR SUPERVISORS

As part of efforts to develop the competencies of members of staff, the CBN provided platforms for supervisors to attend courses, conferences and workshops both locally and internationally, during the year. Highlights of the programmes are presented below:

Local Programmes

The Bank Examiners' Courses (Foundation and Level 1) were conducted for examiners with members of staff of sister agencies and supervisory agencies in the West African sub-region in attendance.

Other in-house programmes were organised covering various areas including: IFRS 9; Risk Based Supervision; Team Mate Audit software; Financial Derivatives; Stress Testing; Bond Markets and Determination of Interest Rates; Macroprudential Analysis; Financial Markets Modelling; Public Sector Debt Analysis; and Applied Times Series Modelling & Forecasting.

Also, supervisors participated in various open capacity building programmes organised by other institutions, including IMF-assisted training courses in specialized areas and a customized Train-the-Trainers course designed to develop the capabilities of in-house facilitators.

International Programmes

Supervisors attended capacity building programmes organized by the West African Institute for Financial and Economic Management, the IMF/Regional Technical Assistance Center in West Africa, Federal Reserve System, Federal Deposit Insurance

Corporation and Toronto Leadership Center, during the year. The courses were on Consolidated Supervision; Bank Resolution and Deposit Insurance; Loan Analysis; Bank Analysis; Asset-Liability Management; Financial Institutions Analysis; Examination Management; Risk Management and Internal Control; Capital Planning and Stress Testing; Credit Risk Analysis and Market Risk Analysis, among others.

Details of the local and international programmes attended by supervisors are shown below:

S/N	Courses, Conferences and Workshops	Number of Staff
1	Bank Examiners' Course (Foundation)	52
2	Bank Examiners' Course (Level 1)	39
3	Teammate Audit Software Hands-on Training	13
4	IFRS 9 and 16	26
5	Risk Based Supervision (Refresher Programme)	89
6	Bond Markets and Determination of Interest Rates	6
7	Stress Testing	14
8	Financial Derivatives	2
9	Applied Times Series Modelling & Forecasting	2
10	Public Sector Debt Statistics	1
11	AML/CFT Compliance	2
12	Enterprise Risk Management	1
13	Macroprudential Analysis	6
14	Financial Markets Modelling 1	2
15	Bank Analysis Programme	4
16	Regional Course on Foundation Banking Supervision	2
17	Train-the -Trainers Course	19
18	Train-the -Trainers Workshop	4
19	Effective Report Writing and Board Presentation	20
20	MFBs/PMBs Course for Examiners	2
21	AML/CFT Course	6
22	IFRS IV Course	4
23	Bank Analysis Examination School	28

24	Conso lidated Supervision and Risk Integration	30
25	International Financial Reporting Standards	7
26	International Financial Reporting Standards 1	22
27	Consolidated Supervision for Conglomerates	20
28	Basel II Implementation (ICAAP)	25
29	Regional Course on IFRS	1
30	Eliminating Too -Big -to -Fail: Tackling the Latest Supervisory Challenges	1
31	Introduction to Examination School	2
32	Financial Institutions Analysis School	4
33	Asset Liability Management School	1
34	Loan Analysis School	5
35	Examinati on Management School	4
36	Credit Risk Analysis School	2
37	Bank Analysis Examination Seminar	3
38	Risk Management & Internal Control Seminar	3
39	Liquidity Risk Management Seminar	4
40	Market Risk Analysis Seminar	2
41	Capital Planning & Stress Testing Seminar	2
42	Real Estate Lending Seminar	2
43	ATD Design Delivery Bootcamp	3
44	The Institute of Chartered Accountants of Nigeria 46th Annual Accountants Conference	11
45	Chartered Financial Analyst Institute Investment Conference	7
46	Information Systems Audit and Control Association 8th Annual International Conference	6
47	The Chartered Institute of Bankers of Nigeria Workshop on Enterprise Risk Management	2
48	The Chartered Institute of Bankers of Nigeria Roundtable Session on Economic Outlook 2016: Implications For Businesses in Nigeria	2
49	3rd Annual Africa Bancassurance Masterclass	5
50	6th Global Islamic Microfinance Forum	3
51	22nd Edition of the Boulder Microfinance Training Programme on Strategic Response to Risk in Microfinance Markets	1

52	Workshop on Macro Prudential Framework on Nascent Financial Stability Frameworks in Sub-Saharan Africa	2
53	Anti-Money Laundering Workshop	2
54	In-plant Workshop on Risk Based Supervision Report Writing	40
55	Seminar on Trading Book Issues and Market Infrastructure	2
56	Regional Workshop on Bank Resolution and Deposit Insurance	4
57	Regional Workshop on Consolidated Supervision	4
58	Housing Finance in a Changing Global Environment-Workshop on Securitization and Mortgage Bonds	3
59	The BNM-WBG Credit Infrastructure Programme	2

The capacity building programmes, evidenced by the diverse courses and members of staff in attendance is an attestation of the CBN's commitment to one of its core value, learning, which emphasises continuous improvement, self-development and team work.

LIST OF LICENSED DEPOSIT MONEY BANKS AND FINANCIAL HOLDING COMPANIES AT END-DECEMBER 2016

Commercial Banking Licence with International Authorization		
S/N	**Name of Institution**	**Head Office Address**
1	Access Bank Plc	999c, Danmole Street, Off Idejo Street, Off Adeola Odeku Street, Victoria Island, Lagos
2	Diamond Bank Plc	Plot 1261, Adeola Hopewell Street, Victoria Island, Lagos
3	Fidelity Bank Plc	2, Kofo Abayomi Street, Victoria Island, Lagos
4	First City Monument Bank Plc	Primose Towers, 17a, Tinubu Street, Lagos
5	First Bank Nigeria Limited	Samuel Asabia House, 35 Marina, Lagos
6	Guaranty Trust Bank Plc	635, Akin Adesola Street, Victoria Island, Lagos
7	Skye Bank Plc	3, Akin Adesola Street, Victoria Island, Lagos
8	Union Bank Plc	Stallion Plaza, 36 Marina, Lagos
9	United Bank for Africa Plc	57 Marina, Lagos
10	Zenith Bank Plc	Plot 84, Ajose Adeogun Street, Victoria Island, Lagos
Commercial Banking Licence with National Authorization		
1	Citibank Nigeria Limited	27, Kofo Abayomi Street, Victoria Island, Lagos
2	Ecobank Nigeria Plc	21, Ahmadu Bello Way, Victoria Island, Lagos
3	Heritage Bank Limited	292b, Ajose Adeogun Street, Victoria Island, Lagos
4	Keystone Bank Limited	Keystone House, 1, Keystone Crescent, Victoria Island, Lagos
5	Stanbic IBTC Bank Plc	IBTC Place, Walter Carrington Crescent, Victoria Island, Lagos
6	Standard Chartered Bank Limited	142, Ahmadu Bello Way, Victoria Island, Lagos
7	Sterling Bank Plc	Sterling Towers, 20 Marina, Lagos
8	Unity Bank Plc	Plot 42, Ahmed Onibudo Street, Victoria Island, Lagos
9	Wema Bank Plc	Wema Towers, 54 Marina, Lagos Island, Lagos
Commercial Banking Licence with Regional Authorization		
1	Suntrust Bank Nigeria Limited	1, Oladele Olashore Street, Victoria Island, Lagos
2	Providus Bank Plc	Plot 54, Adetokunbo Ademola Street, Victoria Island, Lagos
Non-interest Banking Licence with National Authorization		
1	Jaiz Bank Plc	Kano House, Plot 73, Ralph Shodeinde Street, Central Business District, Abuja
Merchant Banking Licence with National Authorization		
1	Coronation Merchant Bank	St. Nicholas House, 6th Floor, 28A, Catholic Mission Street, P.M.B 12511, Marina, Lagos
2	FBN Merchant Bank	2, Broad Street, P.O. Box 4238, Lagos
3	FSDH Merchant Bank	UAC House, 5th-8th Floor, 1/5 Odunlami Street, P.M.B 12913, Lagos

4	Rand Merchant Bank	12th Floor, Churchgate Towers, 2 Plot PC 31, Churchgate Street, Victoria Island, Lagos
Financial Holding Companies i n Nigeria		
1	FBN Holdings Plc	Samuel Asabia House, 35 Marina, P.O. Box 5216, Lagos
2	First City Monument Bank Group Plc	First City Plaza, 44 Marina, Lagos
3	Stanbic IBTC Holdings Plc	I.B.T.C Place, Walter Carrington Crescent, P.O. Box 71707, Victoria Island, Lagos

EDITORIAL COMMITTEE

This edition of the Banking Supervision Annual Report was compiled, reviewed and edited by the Banking Supervision Annual Report Committee, comprising the following staff of the Financial System Stability Directorate of the CBN:

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GLOSSARY

AACB	-	Association of African Central Banks
ACE	-	Advisory Committee of Experts
AD	-	Authorised Dealer
AMCON	-	Asset Management Corporation of Nigeria
AML/CFT	-	Anti-Money Laundering and Combating of the Financing of Terrorism
ATM	-	Automated Teller Machine
BCEAO	-	Banque Centrale des Etats de l'Afrique de l'Ouest
BDC	-	Bureaux de Change
BOA	-	Bank of Agriculture
BOFIA	-	Banks and Other Financial Institutions Act
BTA	-	Business Travel Allowance
BVN	-	Bank Verification Number
CABS	-	Community of African Banking Supervisors
CAMELS	-	Capital, Asset, Management, Earnings, Liquidity and Sensitivity to Market Risk
CAR	-	Capital Adequacy Ratio
CBN	-	Central Bank of Nigeria
CCI	-	Certificate of Capital Importation
CCIRS	-	Cross Currency Interest Rate Swap
CCO	-	Chief Compliance Officer
CDD	-	Customer Due Diligence
CIBN	-	Chartered Institute of Bankers of Nigeria
COMCEC	-	Committee for the Economic and Commercial Cooperation
CPF	-	Consumer Protection Framework
CRMS	-	Credit Risk Management System
CRR	-	Composite Risk Rating
CSWAMZ	-	College of Supervisors of the West African Monetary Zone
CYFI	-	Child and Youth Finance International
DFI	-	Development Finance Institution
DMB	-	Deposit Money Bank
DSIB	-	Domestic Systemically Important Bank
EAD	-	Exposure at Default
ECAI	-	External Credit Assessment Institutions
ECL	-	Expected Credit Loss
ECO	-	Executive Compliance Officer

ETI	-	Ecobank Transnational Incorporated
EWS	-	Early Warning System
FATF	-	Financial Action Task Force
FC	-	Finance Companies
FGN	-	Federal Government of Nigeria
FHC	-	Financial Holding Company
FMDQ	-	Financial Market Dealer Quotation
FMI	-	Financial Market Infrastructure
FRACE	-	Financial Regulation Advisory Council of Experts
FSI	-	Financial Soundness Indicators
FSRCC	-	Financial Services Regulation Coordinating Committee
FSSC	-	Financial System Stability Council
FX	-	Foreign Exchange
FXPD	-	Foreign Exchange Primary Dealer
GDP	-	Gross Domestic Product
GIABA	-	Inter-Governmental Action Group against Money Laundering in West Africa
GIFMIS	-	Government Integrated Financial Management Information System
IASB	-	International Accounting Standards Board
ICAAP	-	Internal Capital Adequacy Assessment Process
ICD	-	Islamic Corporation for the Development of the Private Sector
IDB	-	Islamic Development Bank
IFRS	-	International Financial Reporting Standards
IFSB	-	Islamic Financial Stability Board
ILAAP	-	Internal Liquidity Adequacy Assessment Process
KOB	-	Knowledge of Business
KYC	-	Know Your Customer
LCR	-	Liquidity Coverage Ratio
LGD	-	Loss Given Default
MBAN	-	Mortgage Bankers Association of Nigeria
MDA	-	Ministries, Departments and Agencies
MEE	-	Mutual Evaluation Exercise
MFB	-	Microfinance Bank
ML/FT	-	Money Laundering and Financing of Terrorism
MoU	-	Memorandum of Understanding

MPR	-	Monetary Policy Rate
MTSP	-	Microfinance Training Service Providers
NDIC	-	Nigeria Deposit Insurance Corporation
NERFUND	-	National Economic Reconstruction Fund
NIBSS	-	Nigeria Interbank Settlement System
NIFI	-	Non-interest Financial Institutions
NMRC	-	Nigeria Mortgage Refinance Company
NOP	-	Net Open Position
NPL	-	Non-Performing Loan
NRA	-	National Risk Assessment
NSFR	-	Net Stable Funding Ratio
OAGF	-	Office of the Accountant General of the Federation
OFI	-	Other Financial Institutions
OTC	-	Over-the-Counter
PD	-	Probability of Default
PENCOM	-	National Pension Commission
PEP	-	Politically Exposed Person
PMB	-	Primary Mortgage Bank
PMO	-	Programme Management Office
PTA	-	Personal Travel Allowance
RAS	-	Risk Assessment Summary
RBS	-	Risk Based Supervision
RRP	-	Recovery and Resolution Plan
RUFIN	-	Rural Finance Institution Building Programme
SMIS	-	Secondary Market Intervention Sales
SSG	-	Systemic Support Group
TIN	-	Taxpayer Identification Number
TSA	-	Treasury Single Account
UBA	-	United Bank of Africa